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ABSTRACT

This final report cn southern American cities cites as its major recommendation the need for each southern State to have articulated urban policy. Findings are summarized in the areas of State urban policies, intergovernmental relationships, economic development policy, planning and growth policy, annexation policy, and energy policy. Background research covers the impact of annexation, and fiscal conditions and economic trends in southern cities. Recommendations for policy planning and implementation are made; a checklist of possible strategies for State intervention in urban economies is presented; and examples of improvement projects in southern cities are given. Eighteen tables and eight figures supplement this report with relevant statistical data. (JCD)

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SOUTHERN GROWTH POLICIES BOARD

REPORT OF THE
TASK FORCE ON
SOUTHERN CITIES

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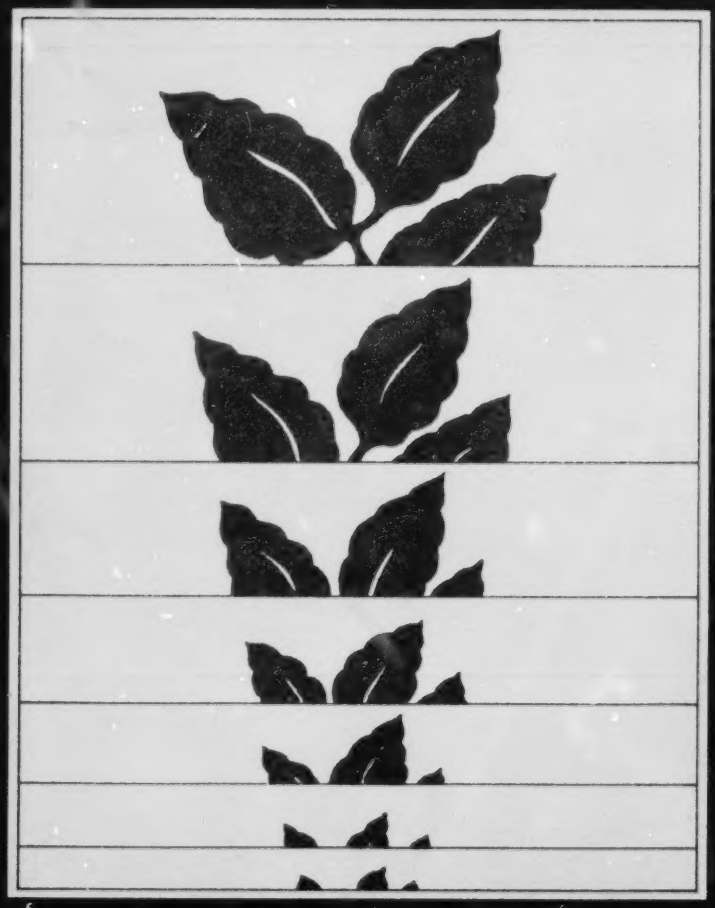

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The Southern Growth Policies Agreement, adopted by the legislatures in the region, is the legal means of cooperation for the member states. SGPB works with state and local governments, universities and research agencies, as well as a wide range of civic organizations and businesses concerned with shaping public policies and the development of ways to manage urban and rural growth.

The Southern Growth Policies Board is a commitment to excellence: a regional effort to develop, conserve and put to best use the South's natural and human resources. It is dedicated to the idea that through cooperation, the southern states can accomplish together what they cannot accomplish individually.

FINAL REPORT OF THE

SOUTHERN GROWTH POLICIES BOARD

TASK FORCE ON SOUTHERN CITIES

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TASK FORCE ON SOUTHERN CITIES

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INTRODUCTION

The Southern Growth Policies Board was formed in December 1971 under the auspices of the Southern Governors' Conference. Current state members include: Alabama, Arkansas. Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee and Virginia, plus the Commonwealth of Puerto Rico.

The Board was created to inform Southern policymakers about the rapid growth occurring in the South and help plan for that growth so its benefits could be realized fully. To this end, the Board was charged with preparing a statement of regional objectives and updating it periodically.

A Commission on the Future of the South was appointed by the Southern governors to prepare the statement of regional objectives with the support of SGPB staff. Additional support for the 1980 Commission on the Future of the South has been provided by four task forces with expertise in areas of special concern - the children, cities, the economy and energy. Each task force includes representatives from every Southern Growth Policies Board member state.

This document is a summary of the final report of the Task Force on Southern Cities. It incorporates information from seven research reports* prepared for the Task Force and the findings and recommendations of the Task Force as submitted to the 1980 Commission on the Future of the South.

Cities have generated special concern in all regions, and the 1970's have been called the decade of the cities. National attention became focused on cities when New York threatened to become the nation's first municipal bankruptcy since the Depression. Wayne County (Detroit) and Cleveland joined New York City on the list of the fiscally infirm, and the federal government marshalled its resources to help distressed cities. The major domestic effort of the Carter Administration was the formulation of a coherent national urban policy, a notable effort that encompassed all departments of the federal government but unfortunately not the needy cities in all regions of the country.** The national efforts are only part of the story.

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* "Suburbs in the City: Municipal Boundary Changes in the Southern States", Patricia J. Dusenbury, Project Director; "Regulatory Costs on State and Local Governments" by Jerome J. Hanus; "The Fiscal Outlook for Southern Cities" by Roy Bahl, Jr.; "Budgetary Trends in Southern Cities" by Mary L. Dodson and Patricia J. Dusenbury; "Southern Cities: Economies in Transition" by Larry C. Ledebur; "Regional Economic Growth and Southern Cities" by Patricia J. Dusenbury; and "An Urban Economic Development Strategy for Southern States" by Roger T. Vaughan.

** Dusenbury and Beyle, "Southern Cities and the National Urban Policy", Southern Growth Policies Board (Research Triangle Park, NC), May, 1979.

The national urban policy focused on fiscal stress and economic development: that is, on programs for improving the urban environment for government and industry. The Task Force on Southern Cities has applied that focus to the cities in the South, and the research commissioned by the Task Force addresses fiscal and economic conditions in Southern cities and the impacts of intergovernmental programs and restrictions.

In addition, the Task Force report considers the liveability of cities - the city as an environment. Looking at that facet of urban conditions brings recognition that trends previously defined only as a problem - for example population decline in the urban core - present opportunities for solutions that would make cities more liveable. It is clear that the overriding goal of an urban policy on any level should be to improve the urban environment for people.

ACKNOWLEDGEMENTS

Many people contributed to the development of this report. The members of the Task Force on Southern Cities - especially the Chairman, Mayor Joseph P. Riley, Jr. of Charleston, South Carolina - by contributing their time, energy and expertise made the whole project possible. Ellis Goldman of the U.S. Department of Housing and Urban Development, the Government Technical Representative for the grant, provided support above and beyond the call of duty.

Several SGPB staff members, in addition to those listed as authors, were instrumental in the completion of this report. Lois Bell and Janet Papke deserve special thanks for their hard work on all phases of the project. Blaine Liner, SGPB Executive Director, provided support and encouragement. Jane Savage helped with the graphics, working with Karen Barrett of Graphic Reproductions in Durham, N.C.

STATEMENT OF THE SGPB TASK FORCE ON SOUTHERN CITIES

The work of the Task Force on Southern Cities is predicated upon: a belief in (1) the importance of the region's existing cities to the future of the South and its people; and (2) the need for positive action to maintain the viability of these cities. The South has become an urbanized region, the majority of Southerners live in urban areas - large and small - and the quality of life in the South depends increasingly upon maintaining healthy cities. Southern cities serve as centers of culture, industry, and education; but most importantly, they are places where Southerners live. Moreover, the state cannot remain economically and fiscally healthy if its cities are allowed to decline.

There is concern about the changing role the city plays in the intergovernmental system, especially because many changes are inadvertent, unplanned results of "non-urban" programs designed without consideration of their potential impact on cities. The strength of local general-purpose government depends upon the support of the higher levels of government and the willingness of state government to give cities the powers and funding sources needed to help themselves. The structure of local government must be flexible, able to adjust as the evolving responsibilities of government change.

Although federal government programs and actions are extremely important to local government, the key to healthy cities is with the state. The cities are looking to their states for the help and support they need, and so the central recommendation of the Cities' Task Force is that each Southern state have an articulated urban policy.

The Task Force on Southern Cities has drawn upon many sources for its recommendations. It has reviewed information on annexation and other municipal boundary changes provided by a Southern Growth Policies Board staff report. Information on federal mandates, urban economic trends in the South, state economic development policies, and the fiscal conditions and outlook for Southern cities has been provided by specially-commissioned papers. Also, the task force has brought to bear the expertise and varied experiences of its membership.

The recommendations of the Task Force on Southern Cities are directed toward the entire region. However, because the Southern states are heterogeneous, not all findings and recommendations apply equally to all states. Several states have the legislation - for example, laws permitting unilateral annexation - that is called for in a task force recommendation. Important variations exist between the Southern states in their economic conditions, extent of urbanization, and political structure. For that reason, it is important that we consider these issues in a broad regional context rather than only as they apply to our home states.

The Commission on the Future of the South has asked the task forces to make recommendations that are designed for implementation. This challenges each task force to provide operational concepts which acknowledge the trade-offs and compromises that accompany choice and action. The following findings and recommendations are designed to meet that challenge.

FINDINGS AND RECOMMENDATIONS

I. STATE URBAN POLICIES

1. FINDING: The growth and development patterns that are occurring and are expected to continue in the South result in more people living in or dependent upon cities and towns. The future quality of life in the South depends upon our ability to preserve existing cities and to cope with growth in the urban area. However, the political power of urban interests at the state level does not reflect this, because there has not yet developed a sufficient appreciation in our state legislatures of the importance of cities.

   RECOMMENDATION: City officials need to work with their Governor to improve their ability to provide urban services and to get the tools needed for this task from the state legislature. The eventual goal and the primary recommendation of the Southern Growth Policies Board Task Force on Southern Cities is a cooperative effort of the state, cities of all sizes and those counties provided urban services to develop a state urban policy, which the participants can work together to implement.

2. FINDING: State and federal programs designed to encourage the provision of urban services and infrastructure to rural areas too often have served to strengthen special-purpose local government, which is not politically accountable to the electorate, while simultaneously weakening general-purpose local government. Also, as development proceeds, it becomes more cost effective to have one urban government rather than several special-purpose tax districts.

   RECOMMENDATION: In the interests of accountable and economic local government, state policy should be to support general-purpose local government as service providers for urbanizing areas, rather than facilitating the creation of special taxing districts. Special-purpose districts should be used only when it is not feasible to rely upon general-purpose local governments to provide needed services.

3. FINDING: Cities must have a sound base of revenue sources that enables them to remain fiscally independent and adaptable to the changing desires of their constituents. State law defines the revenue sources available to local government. An important factor in the fiscal health of Southern cities, relative to Northern cities, is the more elastic tax mix that includes sales and state income taxes and is less reliant on local property taxes.

   RECOMMENDATION: State law should encourage flexible local revenue systems by allowing local-option sales taxes and user fees and by minimizing the imposition of limits on local taxing ability. Limits on local revenue sources should be offset by state revenue sharing, which can draw upon the more elastic revenue sources (usually income taxes) available to the states.

4. FINDING: Contradictions are seen in state and federal programs when urban-oriented and rural-oriented agencies appear to be working at cross-purposes. At the federal level, the urban impact analyses undertaken of the various federal programs and agencies, the Community Conservation guidelines, and the A-95 review process combine to help prevent inadvertent harm to cities resulting from federal actions.

RECOMMENDATION: The process of formulating a state urban policy should include the enactment, at the state level, of safeguards to prevent inadvertent harm to cities resulting from state actions. This state urban impact analysis, to be effective, must include mandatory notification to the affected city at a very early stage.

II. INTERGOVERNMENTAL RELATIONSHIPS

1. FINDING: Federal and state mandates impose heavy financial and authority costs on local government, costs that may far exceed the benefits gained. In particular, cross-cutting mandates frequently are enacted without careful consideration of their costs to the local governments, which must implement them. By their existence, mandates reduce the ability of local governments to pursue local priorities.

RECOMMENDATION: The Task Force on Southern Cities supports the following Advisory Commission on Intergovernment Relations (ACIR) recommendations from its report on federal mandates:

a. That every bill or resolution reported in the Congress include an estimate of the cost to be incurred by state and local government in carrying out and complying with such a bill or resolution;

b. That the President be given statutory authority to suspend temporarily implementation of enacted cross-cutting national policy requirements when it becomes clear that serious and unanticipated costs or disruption will otherwise occur; and

c. That legislation be enacted calling for each federal department or agency to prepare and make public a detailed analysis of projected economic and non-economic effects likely to result from any major new role it may propose.

The Task Force also supports: (A) legislation at the state and federal levels addressing the first recommendation by requiring that a fiscal note - an estimate of the costs to the recipient government - accompany legislation mandating state or local government action; and (B) legislation requiring full funding by the issuing government of the costs imposed by most regulations.

2. FINDING: The local costs of implementing federal and state mandates are most likely to be excessive if the issuing government applies rigid uniform standards with no allowance for varying local conditions.

RECOMMENDATION: Requirements and regulations should be goal oriented and contain waiver provisions recognizing alternative means at the local level for attaining the objective of the mandate.

3. FINDING: The eighties are expected to bring continued budgetary pressure on local governments, especially on older manufacturing centers which provide a wide range of services to their citizens. Unless current economic trends change dramatically, some of these cities will be looking to the federal government for financial help to avoid fiscal collapse. Few if any of these fiscal-crisis cities will be in the South.

RECOMMENDATION: Although the severest fiscal strain will be experienced by non-Southern cities, their fate is a matter of concern to Southerners, and people from the South should be involved in the formulation of a national policy that contains specific provisions and conditions for emergency federal aid to cities experiencing a fiscal crisis.

4. FINDING: Local government's ability to pursue local priorities is affected by the availability of federal funds for specific activities. Occasionally the city undertakes an activity because outside funding is available, but once the program is in place, that aid may be phased-out. It is politically difficult to discontinue an ongoing program, and so the city may be required to use general funds for a service or program it initiated without requiring use of local funds. Similarly, facilities constructed with grant-in-aid funds are normally operated and maintained with local revenues.

RECOMMENDATION: The state and federal power to usurp local priorities should be used with restraint, and to that end, categorical grants should be replaced with block grants wherever feasible.

The Task Force applauds local officials who carefully consider the long-range consequences of accepting grant-in-aid funds for programs and capital expenditures, which would require eventual local expenditure. Thoughtful decisions are made easier if the local residents are made aware that the burden may eventually rest on their shoulders.

5. FINDING: In most cases where states have created State Advisory Commissions on Intergovernmental Relations or a similar state-local body, it has proven to be successful and beneficial.

RECOMMENDATION: States should consider the feasibility of creating an Advisory Commission on Intergovernmental Relations or similar organization in their state.

6. FINDING: City-county conflict, which often results from overlapping or competing service provision responsibilities, weakens the ability of both to serve their constituents efficiently and to deal with higher levels of government.

RECOMMENDATION: State governors and municipal associations should take a lead role in the educational efforts needed to gain political support for our urban centers and a recognition of the common interests of general-purpose local governments.

III. ECONOMIC DEVELOPMENT POLICY

1. FINDING: A strong urban economy rests on a diversified base. Small, existing businesses are a source of economic vitality, cities serve an incubator function for new businesses, and large employers are a dependable source of jobs. Foreign and non-Southern American investment is needed in the South to bring in capital, jobs and a more rapid economic development via imported technology. Economic development programs require more extensive resources than are available at the local level.

RECOMMENDATION: The state urban policy should include an economic development component that contains the variety of programs needed to both support native entrepreneurs and attract outside investment. This economic development component would include state laws that provide equitable tax systems. Economic development incentives (among the possible tools are tax increment financing, tax credits, tax-free bonds, enterprise zones) should be encouraged to stimulate economic growth inside cities. Economic incentives should be based upon state and federal programs and minimize the abatement of local property taxes.

Since public-private cooperation has contributed substantially to the economic growth and development of the South, state and local governments in the South should maintain their positive relationships with private enterprise.

2. FINDING: Tax-exempt industrial revenue bonds are a valuable tool for encouraging economic development in cities. However, some abuses and contradictions have been reported. Financing fringe area commercial development competes with downtown areas and is an example of an unneeded, counterproductive subsidy.

RECOMMENDATION: Tax-exempt revenue bonds should not be used to subsidize commercial development that contributes to urban sprawl or the decline of established cities. The Southern states should act in concert to regulate the use of industrial revenue bonds, limiting their use to the original purpose, to enable local governments to borrow money to encourage industrial development. It should be noted that because the states have not acted on their own to remedy the problem, the federal government is considering corrective legislation. States should try to participate in this process.

IV. PLANNING AND GROWTH POLICY

1. FINDING: In the South there is widespread political support for the concept of private property and the individual's right to use his property as he wishes. Also, there is a strong love for the land, pleasure in its beauty, and a desire to preserve its conditions. In a growth period, these values are often in conflict.

   RECOMMENDATION: The region's land resources must be both conserved and used for the benefit of the people; thus they must be used wisely. Statewide land use policies, exemplified by the North Carolina balanced growth policy, should be included as part of the growth policy element of each state's urban policy, along with legislation providing for locally-enforced land-use controls.

2. FINDING: The futures of the city and countryside are intertwined. Movement of population from city to countryside imposes financial and social costs on both areas. The city's tax base declines, and the poor are left behind to finance expanding capital facilities that are used by all citizens of the area. Meanwhile, exurban development affects rural tax rates and property values, which puts pressure on the profitability of agriculture. In social terms, cities lose a disproportionate number of their better-educated and affluent citizens, while conflicting uses are introduced in rural areas; for example, parents protest that children in a rural subdivision must be kept indoors while a nearby farmer sprays his cotton fields with an insecticide.

   RECOMMENDATION: Government should stop subsidizing the movement of people from city to countryside and allow the financial costs of urban outmigration to fall most heavily on those who choose to relocate. Urban outmigration should not be subsidized by the federal and state governments through programs providing grants, low-interest loans or loan guarantees for development in fringe areas. Perhaps more important, such development should not be subsidized by state and local government through less restrictive development controls in rural areas. Uniformity of subdivision regulations between city and county would reduce the incentive for leap-frog development. At the same time, city officials should provide a swift and orderly review process for proposed development within the municipality.

3. FINDING: Planning for growth is done most often at the local level. That planning, which is done primarily by municipal governments, holds the key to sound urban growth.

RECOMMENDATION: Municipal officials should seek to awaken the urban citizen to his stake in the city in which he lives.

Municipal governments should be given extra-territorial planning jurisdiction over development in unincorporated areas adjacent to the city limits or the ability to annex an area prior to development.

The states should provide incentives for cooperative city-county planning and specifically should authorize such cooperative planning through state legislation.

4. FINDING: Future growth in the South is expected to be especially rapid in small cities and towns. These cities are affected by the same trends - declining use of the central business district, dependence upon property taxes for revenues - as larger cities but may have more problems dealing with changes. Usually, a small city has less influence in the state political system and lacks in-house specialized expertise, especially in financial matters. To overcome this, several Southern states have established a variety of technical assistance programs for small cities.

RECOMMENDATION: The growth policy element of the state urban policy should include planning and technical assistance for small cities to enhance their capacity to cope with growth and other population changes. A coordinated state program would avoid waste and duplication of effort.

V. ANNEXATION POLICY

1. FINDING: Southern cities depend upon annexation for much of their growth. Annexation allows cities to share the benefits of development on the urban fringe and, at the same time, prevents the development of segregated metropolitan areas containing numerous cities divided along the lines of income, race, and age of the residents. Cities must be able to expand their boundaries so that the cultural, historic, economic and political community are all one.

The primary factor determining the amount and type of municipal annexation activity is the state annexation law. The fiscal strength and stability of many of our Southern cities has been the result of liberal annexation laws in those states.

RECOMMENDATION: Southern state annexation laws should recognize that the best justification for annexation is the reason that cities are incorporated in the first place. Cities should be allowed to annex contiguous and developing areas that meet legislative-set standards. The laws should protect residents of these areas by requiring cities either to provide services immediately to newly-annexed areas or, where legal, to phase-in property taxes only as services are provided.

2. FINDING: Although of paramount importance to orderly growth and economic development, annexation is not the single answer for providing urban services to areas of urban development. Annexation and consolidation are alternatives for dealing with urban development. Individual factors at the local level determine which alternative is preferrable for a particular municipality. The viability of either alternative often is affected by the type of development occurring outside the municipal boundaries.

RECOMMENDATION: The state urban policy should include laws that enable cities to: (1) control the type and quality of development outside their boundaries: that is, extraterritorial planning jurisdiction; (2) prevent incorporation of development on the urban fringe into a separate municipality; (3) discourage the development of special-purpose districts where general-purpose government can provide the needed services; (4) annex an area when it is developed to a specified degree of urbanness; (5) enter into cooperative agreements for service provision with other local governments when development makes them contiguous; and (6) provide means for the consolidation of local governments where this is appropriate.

3. FINDING: Some cities are unable to annex because they are surrounded by separate incorporated jurisdictions. These cities are unable to share the benefits of growth in their metropolitan area but still must bear the costs attendant to the use of city facilities by non-residents, many of whom work in the city.

RECOMMENDATION: In the absence of annexation opportunities, alternative revenue systems should be put in place to provide a measure of relief. This can be accomplished with increased financial aid from a state revenue sharing program as in Virginia, tax-base sharing as in Minneapolis-St. Paul, local option sales tax, etc. The state should enable an alternative revenue system that allows non-resident users of city services to contribute to the costs of those services.

4. FINDING: Several Southern cities report that their greatest impediment to annexation is the Justice Department's interpretation of Title V of the Voting Rights Act of 1965, which requires Justice Department approval for any local action affecting voting, including

annexation. If the percent minority population in an annexed area is not the same as in the original city, that can be the basis for a complaint against the city. The Justice Department has used the occasion of such complaints to force Southern cities to change from at-large to district representation and required the design of racially-identifiable districts. A recent U.S. Supreme Court decision upheld the legality of at-large representation in cities (City of Mobile vs. Bolden, April 22, 1980) but a different standard is applied by the Justice Department. This fact combined with the natural reluctance of officials to have their city redistricted via directives from Washington has, for some cities, inhibited annexation. Even when Justice Department approval is granted with no strings, the delay in securing approval causes problems for the annexing city.

RECOMMENDATION: As part of their urban policies, Southern states should work with the Justice Department to find ways of protecting the political strength of minority voters without restricting local government options for dealing with urban growth trends. Minority groups should be included in local government planning and decisions regarding boundary changes to prevent misunderstanding or distrust from surfacing when those changes are implemented.

At the same time, the Justice Department should be encouraged, perhaps through the federal urban impact analysis procedure, to expedite the process.

VI. ENERGY POLICY

1. FINDING: The current energy situation affects cities as it does all consumers. Concerns are being expressed about the relative costs of different types of development and transportation modes. It is up to cities to participate actively in energy conservation efforts - as energy consumers, through regulatory functions, and as participants in formulating a state energy plan.

RECOMMENDATION: The state urban policy should include an energy component; this is being addressed by the Energy Task Force of the Southern Growth Policies Board, but the Task Force on Southern Cities also has some specific suggestions.

Cities should encourage energy conservation in their own activities. Possible means include improved fleet management, making city structures more energy efficient, using garbage disposal burning systems to generate energy, and facilitating car-pools.

Local land control regulations should be modified to encourage energy efficiency; they should allow builders to take advantage of solar heat; institute solar easements to prevent construction or plantings that would shade solar collectors; review subdivision

regulations to eliminate excessive street requirements; and re-evaluate other infrastructure and design requirements in the context of today's conditions.

All levels of government, when constructing new facilities, should take the opportunity to incorporate new technology for energy-efficient design whenever possible. This would lower operating costs and provide a public showcase for new technology.

Local governments should work with the state to construct a state energy plan.

At the first meeting of the Task Force on Southern Cities, discussion centered on the problems facing city governments. Several intergovernmental factors - the changing role of cities in the federal system; disparities between program control and implementation responsibility among the different levels of government, a lack of sensitivity to the urban impact of federal and state actions, restrictive annexation laws, and competition among local governments providing similar services - were cited as impediments to urban health. The resultant problems affect cities of all size categories.

Task Force members decided to focus on the policies needed to maintain viable cities. These urban policies include the laws and mandates under which cities operate as well as aid programs specifically designed for cities. The key recommendation of the Cities' Task Force is that each state have an articulated urban policy so that there is an awareness of the ways in which state programs and policies are affecting cities. Most other recommendations describe different elements - economic development, annexation, growth management - that should be included in a comprehensive state urban policy.

The new administration in Washington signals the birth of a new era in intergovernmental relations at all levels. If more responsibility is to be turned over by the federal government to the states and municipalities, it behooves the latter to prepare for the assumption of those responsibilities. It is essential that we realize the importance of what is happening, and devise institutional arrangements whereby states and localities can be mutually supportive and initiate real communication.

No one on the Task Force believes that the cities' problems would vanish if all of its recommendations were implemented. We do, however, believe that they provide a strong basis for the effort needed, at all levels of government, to maintain viable cities and a healthy South.

BACKGROUND RESEARCH

The findings presented by the Task Force on Southern Cities summarized information assembled by the Task Force, information from member's experiences and information from research reports done for the Task Force. This section provides a more detailed summary of the research while citing the individual reports. Research reports are available from the Southern Growth Policies Board and are listed at the end of this publication.

THE IMPACT OF ANNEXATION UPON SOUTHERN CITIES*

All statistical comparisons describing conditions within municipal boundaries over a period of time are affected by changes in those boundaries, usually by annexation of unincorporated areas. Such changes are more important in the South than in other regions, although annexations are most frequent in Illinois and California, which together accounted for almost one-third of the nation's municipal annexations between 1970 and 1978. Another third were in the fourteen Southern states and the remainder in the other 34 states. Over half of the population and area that was annexed by U.S. cities was in the South (see Table 1)

A notable difference in regional growth trends during the seventies was the continued urban population growth in the South. In contrast to the other major regions where the fastest population growth was in non-metropolitan areas, the metropolitan growth rate in the South exceeded the non-metropolitan rate. Much of the Southern metropolitan population growth was in suburban areas. However, an even more striking contrast was provided by continuing population growth in several large Southern cities during a decade when most of the Nation's other large cities lost population.

Much of the growth reported for larger Southern cities during the seventies occurred as a result of annexation. Cities that grew frequently would have lost population if the municipal boundaries had not changed. An indication of the influence of annexation on urban population statistics is given by Table 2, but the actual impact of annexation upon urban growth is even larger. Table 2 reports 1970 population totals for annexed areas. However, most annexations are of recently developed and growing areas, and so the population on the date of annexation - and in April, 1980 when the latest Census was taken - was in most cases much larger. The full impact of annexations implemented during the seventies cannot be calculated until more-detailed 1980 Census breakdowns are available.

The fiscal and political implications of annexation are substantial. Not only does annexation extend a city's political influence, annexation also increases the city's social and fiscal resources by adding suburban areas with more affluent people and newer homes.

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* This section summarizes material from "Suburbs in the City: Municipal Boundary Changes in the Southern States", Dusenbury et al., Southern Growth Policies Board (Research Triangle Park, N.C.), 1980, 127 pages.

TABLE 1

1970-78 MUNICIPAL BOUNDARY CHANGES IN THE SOUTHERN STATES -
CITIES OVER 2,500 POPULATION

State Name	Number of Municipalities Responding	Municipalities Reporting Boundary Changes	Net Area Added (Square Miles)	Net (1970) Population Of Area Added
ALABAMA	128	95	414.8	112,400
ARKANSAS	85	74	190.3	56,100
FLORIDA	206	141	346.8	141,100
GEORGIA	155	131	233.5	85,000
KENTUCKY	104	84	210.9	175,400
LOUISIANA	93	71	158.0	113,300
MISSISSIPPI	84	42	203.9	86,100
NORTH CAROLINA	130	118	226.0	207,000
OKLAHOMA	109	94	946.7	46,700
SOUTH CAROLINA	86	72	116.3	84,700
TENNESSEE	111	94	400.5	228,400
TEXAS	393	322	1,416.5	441,000
VIRGINIA	77	25	151.2	87,400
WEST VIRGINIA	60	36	27.3	14,400
SOUTH TOTAL	1,821	1,399	5,042.7	1,879,000
U.S. TOTAL	5,818	3,737	9,773.8	3,255,200

Note: All population data is for 1970.

Source: Miller, Joel C. et al., "Annexations and Corporate Changes: 1970-78", The Municipal Yearbook 1980.

TABLE 2

Southern Cities Adding Over 1,000 Residents
Through Annexation, 1970-1978
(Cities with 25,000+ Population)

ALABAMA:	Birmingham (25,581), Dothan (1,810), Florence (1,273), Montgomery (5,877), Tuscaloosa (4,856)
ARKANSAS:	Jonesboro (1,052), Little Rock (8,084)
FLORIDA:	Boca Raton (1,100), Clearwater (2,191), Delray Beach (11,171), Dunedin (2,033), Fort Meyers (1,295), Gainesville (9,000), Lakeland (1,472), Largo (2,812), Miramer (1,421), Ocala (7,992), Orlando (2,657), Pinellas Park (1,822), Plantation (4,000), Pompano Beach (1,010), Tallahassee (3,539)
GEORGIA:	Albany (2,946), Augusta (1,0[illegible]), Marietta (1,567), Rome (1,067), Savannah (35,312), Valdosta (1,053)
KENTUCKY:	Ashland (1,300), Bowling Green (2,160), Covington (2,323), Hopkinsville (3,970), Lexington-Fayette (80,036), Owensboro (8,662), Paducah (3,152)
LOUISIANA:	Alexandria (11,168), Baton Rouge (49,727), Bossier City (5,260), Houma (2,000), Lafayette (2,599), Shreveport (15,707)
MISSISSIPPI:	Biloxi (4,700), Columbus (1,500), Greenville (2,736), Jackson (34,220)
NORTH CAROLINA:	Asheville (3,666), Burlington (2,095), Chapel Hill (2,791), Charlotte (73,060), Durham (2,714), Fayetteville (3,453), Goldsboro (9,256), Greensboro (5,600), Greenville (1,094), Hickory (1,816), Kinston (4,370), Raleigh (5,730), Rocky Mount (2,030), Salibury (2,738), Wilson (2,353), Winston-Salem (1,615)
OKLAHOMA:	Barlesville (1,000), Enid (1,534), Muskogee (4,414), Sand Springs (1,141)
SOUTH CAROLINA:	Anderson (1,859), Charleston (2,900), Columbia (1,131), Greenville (1,313), North Charleston (36,202), Spartanburg (2,101)
TENNESSEE:	Bristol (4,810), Chattanooga (53,810), Clarksville (15,185), Cleveland (5,297), Jackson (5,387), Johnson City (5,085), Memphis (50,730)
TEXAS:	Austin (9,110), Baytown (1,005), Brownsville (3,084), Dallas (6,969), Denton (1,912), El Paso (1,094), Galveston (1,365), Houston (187,636), Irving (1,287), Longview (3,682), Lufkin (3,122), McAllen (5,146), Mineral Wells (1,085), Odessa (2,187), Orange (2,447), Port Arthur (8,164), San Angelo (1,115), San Antonio (76,092), Texarkana (2,332) Victoria (1,875), Waco (1,301), Wichita Falls (1,459)
VIRGINIA:	Blackburg (13,000), Lynchburg (13,799), Petersburg (9,073), Roanoke (13,440)
WEST VIRGINA:	None

NOTE: All population figures are for 1970.

SOURCE: Unpublished local goverment responses to Census boundary and annexation survey.

A study of 1970-78 annexation activity and population characteristics among Southern cities over 50,000 population found that cities with higher 1970 family poverty rates annexed more extensively. A high poverty rate in a city suggests an imbalance between local tax resources and the demand for city services. A city can alleviate that imbalance by annexing higher-income areas such as newly developed suburbs. Apparently, cities that can implement annexation have used that power to improve the municipal fiscal outlook.

The importance of financial considerations to annexation decisions was a consistent theme in the responses to a Southern Growth Policies Board survey of Southern municipal administrators. Both the current political emphasis on local solutions to local problems and decreases in federal aid are increasing the importance of financial considerations to annexation decisions. Financial considerations underlie questions about service levels and costs in newly annexed areas.

The most important factor affecting the amount and frequency of annexation is state law. Southern state annexation laws are diverse, but on the whole less restrictive than elsewhere. Also, most Southern states have restrictions on municipal incorporations near an existing city so that few Southern cities are surrounded by incorporated areas which cannot be annexed. As a result, Southern cities annex more than most other cities, and are less often disadvantaged relative to their suburbs. The suburban areas are inside the city limits. The impact of municipal annexations affects all urban growth trend analyses and systematically bias interregional comparisons.

Case studies of the impacts of annexation upon four major Southern cities - Charleston, South Carolina; Houston, Texas; Lafayette, Louisiana; and Raleigh, North Carolina - found disparate local conditions, but important commonalities in annexation experiences. Although the legal framework for annexation ranged from annexation by municipal ordinance (Raleigh) to annexation only at the request and with the approval of affected area residents (Charleston), all four cities annexed extensively. Those annexations strengthened the cities' fiscal and political position.

From a policy viewpoint, an important difference was the contrast between the orderly pattern of municipal expansion in Houston and Raleigh where the city controls the process and the erratic city boundaries in Charleston and Lafayette where people in the affected areas control the process. An outline of each city's boundaries is shown in Figure 1.

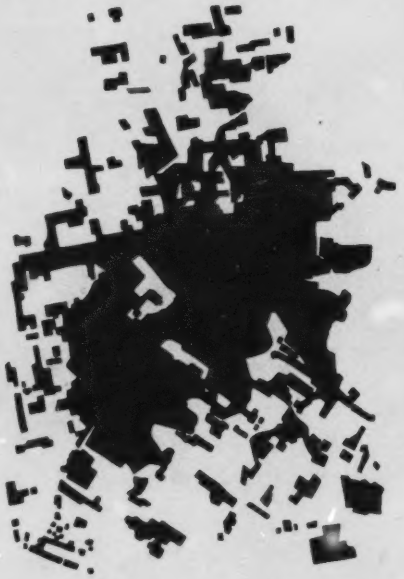
Annexation is not the only source of municipal boundary changes. Municipal boundaries are altered by detachment of area, consolidation of local goverments and by the incorporation or dissolution of a municipal corporation. None of these procedures occur as frequently as annexations. However, consolidation, when it occurs, has a major impact, literally transforming the local goverment structure. Consolidations may involve a city and a county or two cities. As with annexations, there are more consolidations in the South than in other regions. Table 3 shows the number and type of local government consolidations implemented in the South and in the U.S. from 1970 to 1977. Several other consolidations were proposed during that interval but failed to receive the required voter approval in referendums.

FIGURE 1
CITY BOUNDARIES

CHARLESTON S.C.

HOUSTON TX.

RALEIGH N.C.



LAFAYETTE LA.

City boundaries are irregular, reflecting topgraphy, historical development patterns, and differences in state annexation laws.

TABLE 3

Local Government Consolidations,
1970-1977

State	Annexation of Incorporated Place	Merger of Municipalities	City-County Consolidation	Total Actions
ALABAMA		1		1
ARKANSAS		1		1
FLORIDA	3	2		5
GEORGIA			1	1
KENTUCKY		2	1	3
LOUISIANA		1		1
MISSISSIPPI				
NORTH CAROLINA		1		1
OKLAHOMA				
SOUTH CAROLINA				
TENNESSEE				
TEXAS		6		6
VIRGINIA		1[A]	1[B]	2
WEST VIRGINIA				
SOUTH	3	15	3	21
UNITED STATES	7	37	5	49

A. Nansemond and Suffolk independent cities consolidated, retaining the name "Suffolk".

B. Holland town and Whalesville town consolidated with the rest of Nansemond County to become Nansemond independent city.

All types of municipal boundary changes are essentially political decisions although they are undertaken for other reasons - financial, service-related or growth policy considerations.

FISCAL CONDITIONS IN SOUTHERN CITIES*

Southern cities are coping with the same fiscal trends as cities in other regions. The growing popular aversion to property taxes and the diminishing flow of federal aid to cities limit the two major sources of local revenues. Inflation and high interest rates, national economic phenomena, increase fiscal pressures on cities across the country. However, because of important variations in local conditions, all cities are not affected to the same extent or even in the same way.

Generally, Southern cities are stronger financially than other cities, especially the older cities of the Northeast and Midwest. Northern and Southern cities typically operate in settings that differ politically and economically as well as geographically. Most of the differences contribute to the stronger position of Southern cities, and an important contribution to the fiscal health of Southern cities is made by policy decisions implemented at the state and local levels.

Several political and institutional factors contribute to the relatively strong fiscal position of Southern cities. More liberal state annexation laws allow cities to expand their boundaries, absorbing growth areas on the urban fringe. As a result, the municipal tax base expands, relieving some of the pressure for tax increases, and there is less fiscal and socio-economic disparity between Southern central cities and their suburbs. Central cities in the South are strong in relation to their suburbs.

Southern fiscal systems tend to be state dominated. This means that there is more reliance upon the state for financial support of local government functions. Cities are more dependent upon state sales and/or income taxes for revenue and less dependent upon relatively inelastic property taxes. Also, there is a greater degree of state control over and responsibility for the aggregate level of fiscal activity - and thus the level of local taxes and the quality of public service - within the state.

An analysis of state fiscal patterns** described eight Southern states - Arkansas, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina and West Virginia - as having a high level of state financing responsibility and a high or moderate level of state expenditure responsibility.

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* This section draws upon three research reports: "The Fiscal Outlook for Southern Cities" by Roy Bahl, Jr., "Budgetary Trends In Southern Cities" by Mary L. Dodson and Patricia J. Dusenbury; and "Regulatory Costs on State and Local Governments" by Jerome J. Hanus.

** Advisory Commission on Intergovernmental Relations, Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, Wage Rates. (Washington, D.C.) February, 1977.

Alabama, Georgia, Tennessee and Virginia have moderate levels of state financing and expenditure responsibility, while only Florida and Texas have relatively low state responsibility for the state-local fiscal system. The more centralized, state-dominated systems are associated with relatively even levels of service provision throughout the state, because there is a more even distribution of fiscal resources among local jurisdictions in a state-dominated system. This in turn helps prevent severe imbalances between fiscal resources and service demands.

Cities' abilities to annex and a state dominated fiscal system both act to moderate fiscal disparities among municipalities in a state. This is especially important within large metropolitan areas that include separately-incorporated suburbs. Central cities face problems attributed to jurisdictional fragmentation that would be more precisely defined as offshoots of fiscal disparities among the metropolitan area's municipalities.

The quality of public schools, police, fire and sanitary services, recreational facilities, and other public services vary among localities, as does the tax rate required to support them. There is no consensus on the perfect level of local services, and local conditions affect the need for services. However, fiscal disparities among near-by jurisdictions can contribute to the decline of the disadvantaged municipality, and thus to greater disparities and further decline. Large differences in local service levels and the tax rates needed to support them influence the locational decisions of newcomers to an area and may induce residents to relocate.

Not all interregional differences are positive. Southern cities have lower per capita incomes and more poor people than cities in other regions. Perhaps as a result, there is a less-developed government structure; per capita expenditures are lower and tax effort is lower. In the South, as elsewhere, there is a growing concentration of minority population in large cities, and central cities are losing population to suburban areas. In the Southernmost cities, the social fabric has been strained by massive immigration from the Caribbean and Latin America.

The fiscal problems facing southern cities are less likely to result from jurisdictional fragmentation and fiscal disparities than from the pressures of growth upon inadequate public facilities and infrastructure. However, all southern cities are not alike. Several older manufacturing centers are characterized by jurisdictional fragmentation and fiscal disparities in the metropolitan area, and are affected by the same decline syndrome as older manufacturing cities in other regions. Birmingham, New Orleans, Norfolk, Atlanta, Tampa and Louisville lost population between 1970 and 1980. Several other cities grew only through annexation.

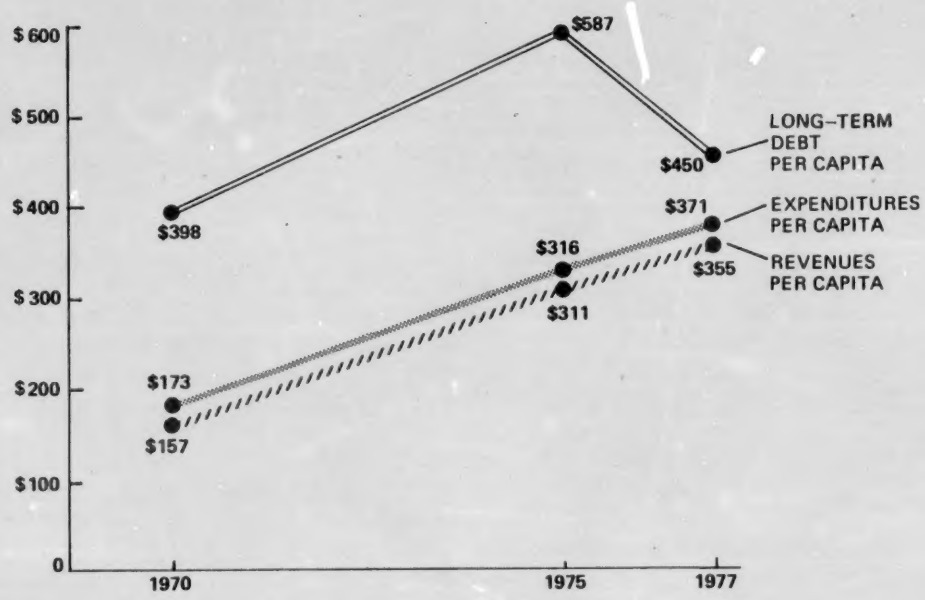
Recent Budgetary Trends

Southern cities have had to respond to a variety of often-conflicting economic forces during the seventies. The impacts were felt by municipal budgets, and as a result, budgetary trends of southern cities shifted during the seventies. In the first part of the decade, high inflation rates and rising public service costs led to large increases in Southern municipal budgets. Revenue growth - particularly strong from 1970 to 1975 - was primarily a result of increases in federal and state aid.

In contrast to the 1970-1975 period, the second half of the decade was a time of economic adjustment. It was marked by slower growth in revenues and expenditures and an actual decline in long-term debt despite escalating inflation. Continuing direct federal aid helped ease local fiscal pressures, and cities helped by cutting back on service expansion and postponing additional capital spending. Figure 2 illustrates the budgetary trends of 1970-75 and 1975-77.

FIGURE 2

MUNICIPAL BUDGETARY TRENDS IN THE SOUTH: 1970, 1975, & 1977



The patterns of municipal budget expansion between 1970 and 1977 are shown in detail in the following table. The rapid growth of the early seventies was slowed as local governments responded to a changing economic and political climate. The most dramatic change was in general long-term debt, which was accompanied by a decline in short-term debt for most cities.

TABLE 4

CHANGING FISCAL CONDITIONS IN THE SOUTH

	1970	1975	1977	1970-77 Change	Annual Rate of Change 70-77	70-75	75-77
General Expenditures Per Capita	$173	$316	$371	$198	11.5%	12.8%	8.2%
General Revenue Per Capita	$157	$311	$355	$198	12.3%	14.6%	6.7%
General Debt Per Capita	$398	$587	$450	$ 52	1.7%	8.9%	-12.4%
Intergovernmental Revenue as a Percent of Total Revenue	21.5%	33.5%	32.8%	11.3%			
Property Tax Revenue as a Percent of Total Revenue	32.3%	24.4%	25.1%	-7.1%			
1977 Change in Short-Term Debt (millions)				-$1.6			

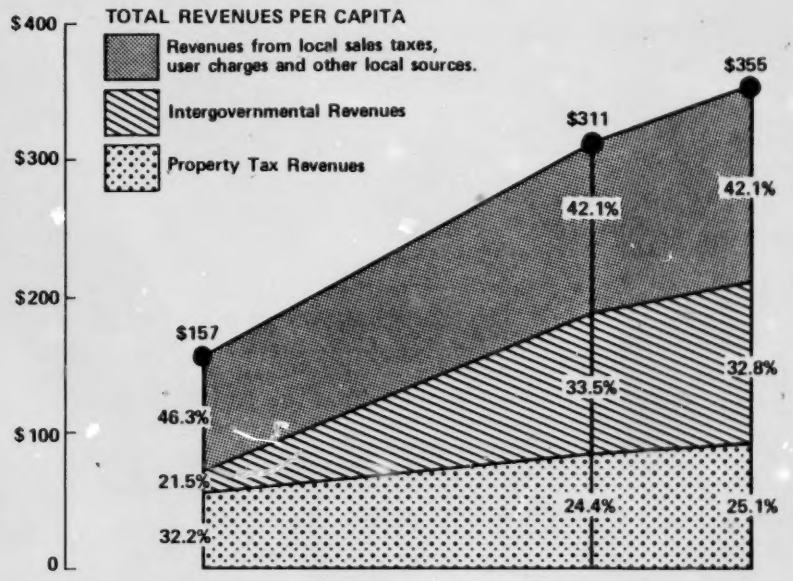
In part, the decline in long-term debt after 1975 can be attributed to the erratic bond market in the post-recession period. However, it may also represent a conscious decision by local officials and budget analysts to postpone additional capital spending. Typically, local governments use capital expenditures as a buffer, with unexpected shortfalls in revenues or emergency expenditures financed by deferred capital spending.

A comparison of the budgetary trends of the South's largest cities with their counterparts in the North reveals that the budgetary adjustments made by southern cities were less drastic than those made by cities in the North. Although there was a slowdown in budget growth in the South, northern cities deferred compensation increases and capital replacements while cutting back programs. The continuing economic growth in most large southern cities and the additional tax base it provides cushioned the impact of financial pressures upon Southern cities. Moreover, municipal employees in the South continue to be paid substantially less than those in the North.

Changing Revenue Sources. Because the growth in municipal budgets came primarily from increased federal and state aid, the composition of municipal revenue sources changed. About a third of general municipal revenues in 1970 came from property taxes, historically the primary revenue source for local governments. By 1977, local property taxes provided only one-fourth of general revenues for the average Southern city - a drop explained by increased non-tax revenues and a growing dependence upon federal and state aid. Figure 3 illustrates the changing revenue mix.

FIGURE 3

THE CHANGING COMPOSITION OF LOCAL REVENUES IN THE SOUTH: 1970, 1975, & 1977



While the federal and state aid helped municipal governments accommodate growth and expand services, it also led to a growing local dependence on federal and state money. Now that federal aid is being reduced and direct federal aid to local government rerouted through the states, many municipalities - particularly the larger cities - face an uncertain fiscal future.

As a growing portion of local revenues came from the state and federal governments, cities in all regions became more dependent upon those revenue sources. This increasing reliance on outside aid had several implications for municipal governments. Fiscally, it increased uncertainty, because events outside the control of local officials determined the amount of aid to be allocated to the city. As noted previously, that flow of funds is already ebbing. Politically, moving financial responsibility to higher levels of governments shifted discretionary power away from the local level. With the acceptance of federal and state aid, local officials also had to defer to objectives, goals and priorities set in Washington or state capitols. Not surprisingly, this loss of local autonomy has become a sensitive political issue at all levels of the intergovernmental system.

Important from a fiscal view is the increasing cost of complying with federal and state mandates--now estimated to average 1100 mandates affecting each local government unit. New York, the nation's largest city, predicts its costs from imposed mandates over the next four years will total $711 million in capital expenditures, $6.25 billion in budget expenditures and $1.66 billion in lost revenues.

It is clear that grant-in-aid programs and their accompanying regulations impose substantial administrative and authority costs on local governments. Federal largesse has encouraged localities to spend out of proportion to their revenue raising capacity. Local governments expanded service provision, sometimes in totally new areas, because the federal government would pay most of the cost. Now as federal aid levels off or declines, cities will be faced with a shortfall in revenues which will necessitate cutbacks in services, city work forces, or both. It is politically and administratively painful to reduce existing public services.

The impact of federal cutbacks on municipal budgets will vary according to the extent of dependence upon federal funds and the availability of alternative revenue sources. On both counts, Southern cities are in a better position than cities elsewhere, but not in a good position.

The Impact of Inflation. Coping with a shrinking revenue source is made especially difficult by inflation, and like their counterparts in other regions, Southern state and local governments have been hard hit by inflation in the seventies. While it is difficult to calculate the exact impact of inflation on local government revenues and expenditures, 1970-78 changes in the average urban price index can be used to indicate recent inflationary trends affecting municipal budgets in the Southern states. Between 1970 and 1978 - the period covered by this study - prices rose by 71 percent for urban consumers in the South. This compares with gains of 65.5 percent in the Northeast and 66.6 percent in the North Central region.

As part of the national trend toward economic convergence, costs are rising most rapidly in regions where they have been lowest and more slowly in regions where they have been higher. The faster price increases and upward pressure on the low Southern municipal pay scales could offset some of the advantages Southern cities have for coping with the expected decline in federal aid. All cities hope that any reduction in federal aid will be accompanied by a substantial reduction in federally-mandated costs.

Fiscal Outlook

It appears that cities in the Southern states face three major sources of fiscal stress. The first is the expenditure pressure from rapid population and economic growth. The second is the cost pressure of inflation. The third is the catch-up effect for public employees who will demand compensation increases to bring them in line with the private sector and with public employees elsewhere. Fiscal stress caused by expenditure pressures will be compounded by reductions in federal-local aid and the political strength of the tax limitation movement, especially as it applies to property taxes.

Southern municipal budgets are undergoing considerable change. Looking ahead, we can expect to see additional shifts in the revenue mix of Southern local governments, particularly if decreases in federal aid are as large as predicted. Most likely, a growing number of cities will begin to use sales taxes and user fees to make up this loss. Reliance on new revenue sources is almost certain to grow.

National economic factors and regional growth patterns will continue to play a predominant role in determining the pace of expenditure growth. The fiscal climate also will affect cities' capital spending plans; restraint in city borrowing probably will remain the norm. Overall, the trend in the South appears to be toward conservative budgetary practices. This is not at all surprising given the present economic climate and the slower budget growth since mid-decade.

A broad range of options for dealing with the current fiscal situation is available. Site value taxation, and metropolitan tax base sharing are some new alternatives that Southern cities have considered, along with greater use of fees and sales taxes. On the expenditure side, cities are looking at options for greater efficiency in service provision: interlocal agreements, contracting with private suppliers and increased community participation, and others.

Much of what has been labeled local options is, however, really a matter of state options. As creatures of the state, cities are legally restricted in their taxing and spending policies. States have to play a role in alleviating fiscal problems of local governments.

Southern state and local governments vary tremendously in the resources they have available to deal with fiscal pressure. Fiscal problems are small by comparison with the potential and advantages enjoyed by those states with rich natural resource bases to tap. All of the Southern states are benefitting from regional shifts in population and economic activity. Tax rates in the South are relatively low, which gives latitude for increases, if the political atmosphere will permit it. With the exception of a few cities, the financial position of Southern local government appears relatively strong.

ECONOMIC TRENDS IN SOUTHERN CITIES*

There are two, equally important facts which summarize the economic status of Southern cities: First, Southern cities appear stronger economically than U.S. cities as a group; and second, Southern cities are heterogeneous and individually represent a full range of economic conditions. Economically, as well as fiscally, Southern cities are perceived to be healthier than cities in other regions. But aggregated statistics describing regional growth obscure the variety of experiences within the region. When looking at the glowing economic prognosis for the sunbelt, it is possible to be blinded by the light and not see that there are enduring economic problems - especially poverty - in many areas of the South.

Historically, poverty has been most severe in the rural South, but increasing urbanization has brought migration of low-income families from Southern rural to Southern urban areas. At the same time poor people are migrating to the South from other regions of the U.S., and many of these new Southerners are settling in the cities. A third source of poor people moving to Southern cities is immigration from the Caribbean and Latin America. Economic growth is needed to provide jobs and a way out of poverty for all these people. Their presence places extraordinary demands upon the local economies of Southern urban areas.

Urban Economic Performance

Southern cities are diverse in terms of economic structure and level of development. Thus, no single economic statistic is an unbiased measure of the conditions or performance of local urban economies. One solution, used in the research done for the Task Force on Southern Cities, is to construct an index of several measures. To encompass a broader definition of economic development than "more jobs" and to accommodate differences in development levels among cities, five economic statistics - average income, income growth, changes in total employment, the unemployment rate, and changes in the unemployment rate - were combined equally to form an economic performance index. The index measures economic performance during the 1970's.

The index scores range from plus six to minus six and provide a tool for comparing the economic performance of Southern cities with cities in other regions and with each other . In addition to employment and unemployment measures, the index includes an income measure to identify cities with economic challenges related to low income, a factor affecting less-developed urban economies; and an income growth measure to identify cities with economic challenges related to stagnation or decline, a factor affecting mature urban economies. Table 5 lists the cities in the South, their economic performance index score, their rank in the region, and their rank among the 363 U.S. cities over 25,000 population.

* "Southern Cities: Economies in Transition" by Larry C. Ledebur; "Regional Economic Growth and Southern Cities" by Patricia J. Dusenbury; "An Urban Development Strategy for Southern States" by Roger J. Vaughan.

TABLE 5

ECONOMIC PERFORMANCE OF SOUTHERN CITIES

City and State	Rank among Southern Cities	Rank among all U.S. Cities with population over 50,000*
Fort Lauderdale, Florida	1	3
Hollywood, Florida	2	6
Virginia Beach, Virginia	3	15
Richardson, Texas	4	21
Miami Beach, Florida	5	25
Midland, Texas	6	26
Charlotte, North Carolina	7	38
Asheville, North Carolina	8	41
Winston-Salem, North Carolina	9	42
Raleigh, North Carolina	10	45
Oklahoma City, Oklahoma	11	46
West Palm Beach, Florida	12	51
Tulsa, Oklahoma	13	53
Tyler, Texas	14	54
Clearwater, Florida	15	55
Houston, Texas	16	59
Durham, North Carolina	17	61
Greensboro, North Carolina	18	62
Norman, Oklahoma	19	63
Greenville, South Carolina	20	68
Irving, Texas	21	71
Dallas, Texas	22	78
Orlando, Florida	23	79
Lynchburg, Virginia	24	81
Midwest City, Oklahoma	25	83
San Angelo, Texas	26	86
Amarillo, Texas	27	87
Mesquite, Texas	28	95
Pasadena, Texas	29	96
Garland, Texas	30	98
St. Petersburg, Florida	31	99
Charleston, West Virginia	32	101
Wichita Falls, Texas	33	105
Lawton, Oklahoma	34	106
Lubbock, Texas	35	110
Nashville, Tennessee	36	112
Lafayette, Louisiana	37	115
Jackson, Mississippi	38	116
Austin, Texas	39	117
High Point, North Carolina	40	121
Longview, Texas	41	124
Little Rock, Arkansas	42	127
Columbia, South Carolina	43	129
Odessa, Texas	44	134
Miami, Florida	45	139
Hialeah, Florida	46	141
North Little Rock, Arkansas	47	145
Tampa, Florida	48	147

TABLE 5 cont'd.

City and State	Rank among Southern Cities	Rank among all U.S. Cities with population over 50,000*
Fort Smith, Arkansas	49	152
Owensboro, Kentucky	50	158
Lexington, Kentucky	51	160
Arlington, Texas	52	162
Charleston, South Carolina	53	167
Gadsden, Alabama	54	169
Roanoke, Virginia	55	179
Fort Worth, Texas	56	180
Fayetteville, North Carolina	57	182
Memphis, Tennessee	58	184
Huntington, West Virginia	59	186
Waco, Texas	60	196
Abilene, Texas	61	199
Gainesville, Florida	62	200
Wilmington, North Carolina	63	203
Knoxville, Tennessee	64	205
Tallahassee, Florida	65	207
Chesapeake, Virginia	66	209
Pensacola, Florida	67	210
Grand Prairie, Texas	68	212
Beaumont, Texas	69	216
Huntsville, Alabama	70	218
Montgomery, Alabama	71	219
Albany, Georgia	72	224
Pine Bluff, Arkansas	73	228
Louisville, Kentucky	74	231
Jacksonville, Florida	75	232
Augusta, Georgia	76	234
Birmingham, Alabama	77	249
Savannah, Georgia	78	255
Lake Charles, Louisiana	79	263
Corpus Christi, Texas	80	264
Clarksville, Tennessee	81	272
Columbus, Georgia	82	274
Shreveport, Louisiana	83	275
Chattanooga, Tennessee	84	277
Mobile, Alabama	85	281
Newport News, Virginia	86	283
San Antonio, Texas	87	285
North Charleston, South Carolina	88	295
Hampton, Virginia	89	296
Baton Rouge, Louisiana	90	299
Atlanta, Georgia	91	300
Port Arthur, Texas	92	303
Richmond, Virginia	93	308
Tuscaloosa, Alabama	94	315
Monroe, Louisiana	95	317
Portsmouth, Virginia	96	322
New Orleans, Louisiana	97	328
Galveston, Texas	98	336
Macon, Georgia	99	350
El Paso, Texas	100	357
Norfolk, Virginia	101	359
Brownsville, Texas	102	360
Laredo, Texas	103	363

* Out of 363 ranked cities.

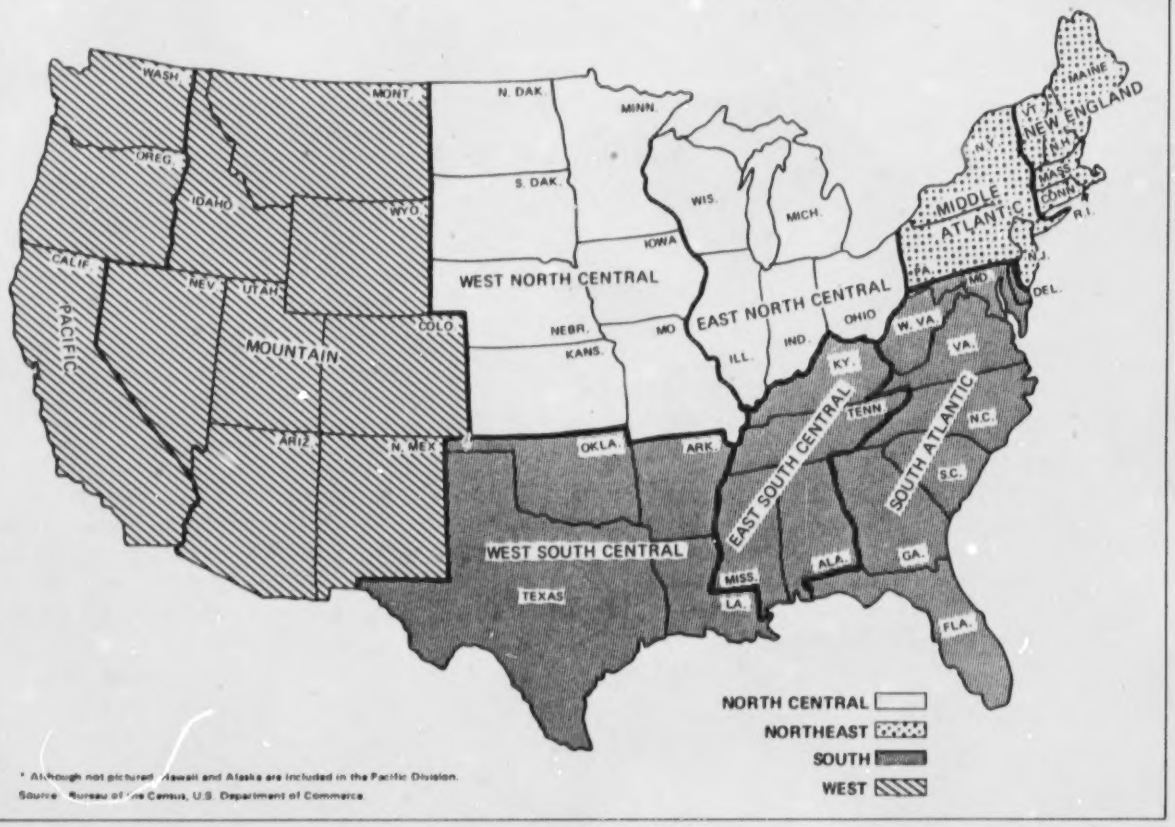
The economic performance of Southern cities compares favorably to that of other U.S. cities. Slightly more than half of the 103 Southern cities studied - cities with over 50,000 (1975) population - have above-average scores on the economic performance index. At the other end of the scale, cities with economic performance indices that place them among the lower two-fifths of cities studied are considered to have symptoms of a distressed local economy. Cities in this group are found throughout the South.

On the whole, Southern cities benefit from their location in an economically-developing region. However, not all areas of the South are prospering. The variety of economic experience and conditions within the South is shown clearly by a comparison of economic performance for the three geographic divisions that make up the Southern region.

The placement of states into divisions and divisions into regions is designated by the Bureau of the Census as shown in Figure 4. There are 103 large cities in the three divisions that make up the South. The South Atlantic division and the West South Central division each contain 44 large cities, while the East South Central division has only 15 large cities - fewer than any other division.

FIGURE 4

CENSUS REGIONS AND DIVISIONS OF THE UNITED STATES



* Although not pictured, Hawaii and Alaska are included in the Pacific Division.

Source: Bureau of the Census, U.S. Department of Commerce

Table 6 lists the economic performance index for each geographic division and the average economic performance index for the cities in each region. One Southern division is in each of the three performance categories. The East South Central states had the poorest economic performance index score, primarily due to low incomes and slow employment growth. The South Atlantic states were placed in the intermediate group and the West South Central states in the highest performance group.

TABLE 6

INDICES OF REGIONAL AND MEAN CITY PERFORMANCE*

Region	Economic Performance Index	Urban Economic Performance Index
Economically Distressed:		
East South Central	-3.91	-0.6074
Middle Atlantic	-2.60	-2.9116
Intermediate Economic Performance:		
East North Central	0.40	0.1714
South Atlantic	0.82	0.2450
Nondistressed:		
West South Central	1.28	0.0029
Pacific	1.28	0.4077
Mountain	1.36	2.1600
New England	1.70	-0.0409
West North Central	2.00	0.4076

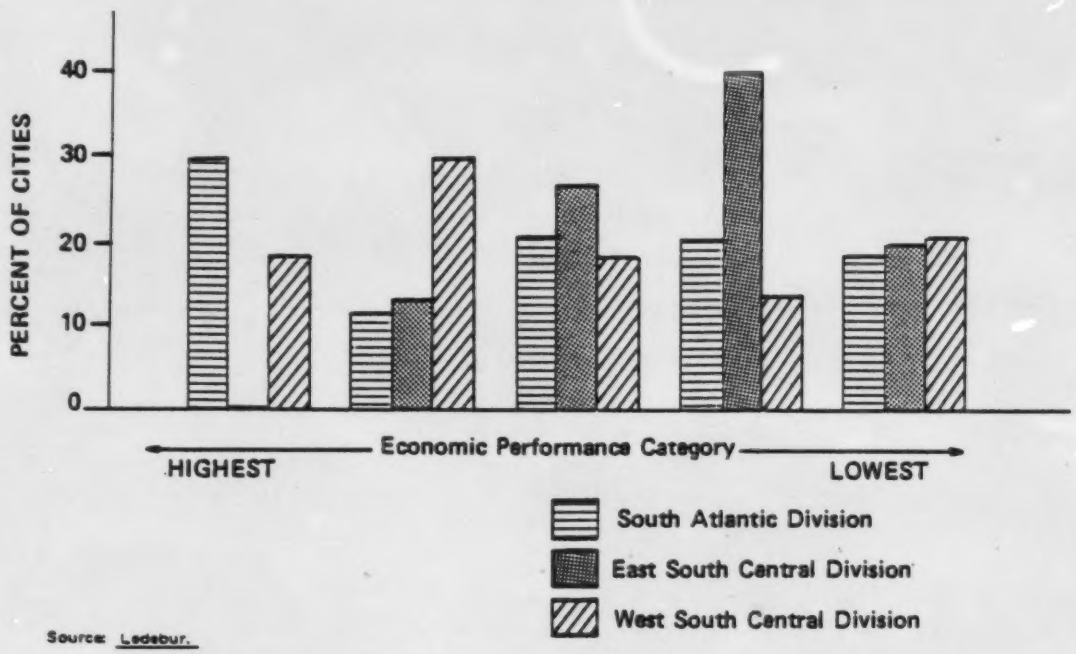
* Regions with negative performance indices are designated as economically distressed. Those with performance measures between zero and one have intermediate levels of economic performance. Those with indices greater than one are designated as nondistressed. Obviously these designators are somewhat arbitrary. They serve, however, to depict the variations in levels of economic performance among regions.

Source: Ledebur

Cities with symptoms of economic distress are found in all three of the Southern geographic divisions, but there is a much higher incidence of distressed or low-performance cities in the East South Central division. Figure 5 illustrates the distribution of cities in each census division by economic performance category. There are no cities from the East South Central states in the highest category.

FIGURE 5

ECONOMIC PERFORMANCE OF SOUTHERN CITIES BY CENSUS DIVISION

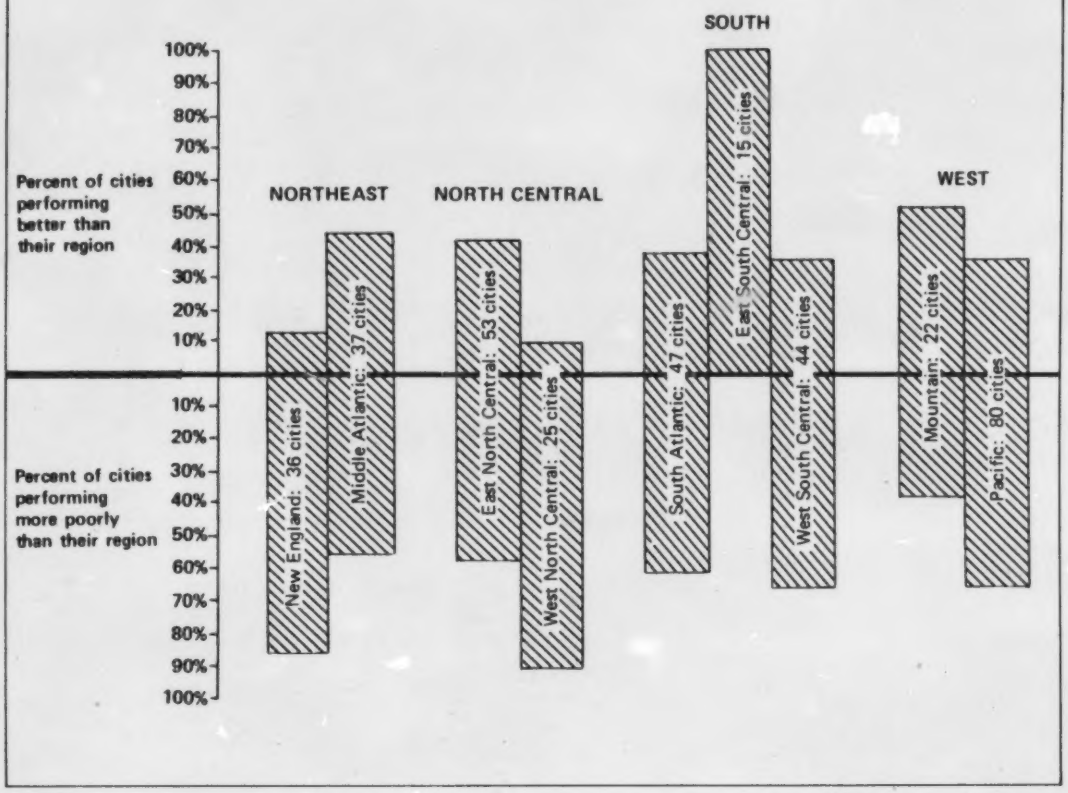


Source: Ledebur.

The evaluation of urban economic conditions depends upon a city's performance relative to surrounding areas as well as upon actual conditions in the city.* Figure 6 shows the relationship between urban economic performance and overall economic performance for the nine geographic divisions. The pattern in the East South Central Division is unusual. The average economic performance index for cities in those states is negative, a level indicating economic distress. However, because these cities have performed better than their states, they often are not perceived as poor economic performers. The other Southern divisions mirror the national pattern.

FIGURE 6

ECONOMIC PERFORMANCE, CITIES AND THEIR REGIONS



* The urban hardship index developed by Nathan and Adams ("Understanding Central City Hardship", Political Science Quarterly, Spring, 1976) focus entirely on urban/suburban differentials. Thus a city is distressed by having prosperous suburbs.

As indicated by the broad regional patterns, there are substantial differences in the economic performance of cities among the Southern states. In North Carolina, a majority of cities are among the highest performance cities. Most Oklahoma cities have above average economic performance, as do at least half of the large cities in four other states - Texas (51.7%), Florida (50.0%), West Virginia (50.0% - one of the state's two cities), and Mississippi's single large city. The incidence of below average economic performance is greatest in the neighboring states of Georgia and Alabama. In three other states - Virginia, Tennessee and Louisiana - the majority of cities have below-average economic performance index scores.

If Southern cities are divided into five equal categories based upon their economic performance index score, an uneven distribution is apparent among the Southern states. Within the states of each division, however, there is some consistency (see Table 7).

TABLE 7

DISTRIBUTION OF SOUTHERN CITIES BY ECONOMIC PERFORMANCE INDEX

(Number of Cities in Performance Categories)

	Performance Categories					
	1 (Best)	2	3 (Average)	4	5 (Worst)	Total Cities
SOUTH ATLANTIC STATES	13	5	9	9	8	44
Florida	5	2	4	3		14
Georgia				4	2	6
North Carolina	6	1	1	1		9
South Carolina	1		2		1	4
Virginia	1	1	1	1	5	9
West Virginia		1	1			2
EAST SOUTH CENTRAL STATES	0	2	4	6	3	15
Alabama			1	3	2	6
Kentucky			2	1		3
Mississippi		1				1
Tennessee		1	1	2	1	5
WEST SOUTH CENTRAL STATES	8	13	8	6	9	44
Arkansas			3	1		4
Louisiana		1		2	3	6
Oklahoma	3	2				5
Texas	5	10	5	3	6	29
TOTAL SOUTHERN CITIES	21	20	21	21	20	103

Source: Ledebur.

In part, differences in urban economic performance reflect size differences among cities. Economic stress is most frequently encountered among the largest cities. Nationally, two-thirds of cities with over 500,000 residents are in the two categories of cities with below-average economic performance, categories 4 and 5. In the South, half of the largest cities have low economic performance index scores, but there is a slightly higher rate of economic stress among the cities from 150,000 to 300,000 population. Table 8 compares the size distribution of low performance cities in the South with the national pattern.

TABLE 8

POPULATION DISTRIBUTION OF LOW-PERFORMANCE CITIES

	South			U.S.		
1975 Population	All Cities	Low Performance Cities	% Low Performance	All Cities	Low Performance Cities	% Low Performance
500,000+	6	3	50%	21	14	67%
300-500,000	9	3	33%	22	10	45%
150-300,000	20	11	55%	50	22	44%
50-150,000	68	24	35%	270	100	37%
TOTAL	103	41	40%	363	146	40%

Source: Ledebur.

The same percentage of cities in the South and the nation have low scores on the economic performance index. However, Southern cities are considered to be enjoying better economic health and to have a brighter economic future. This is because Southern cities are stronger than most other cities relative to their suburbs, and to their states in the East South Central division. Southern cities have shared in the region's recent growth.

Recent Growth Trends

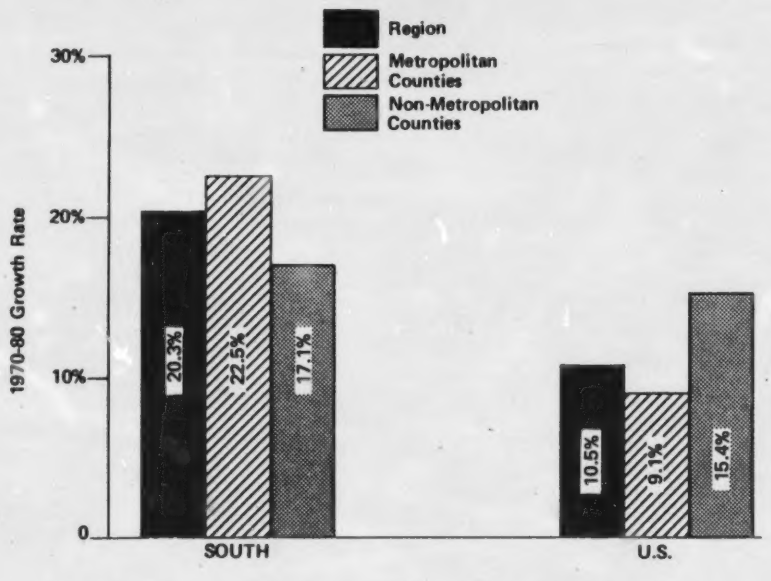
The economic growth that occurred in the South during the 1960's was concentrated in the cities, but growth was more dispersed during the seventies. This portends a broader distribution of economic progress, sorely needed in much of the rural South, but it also should alert concerned policymakers to the potential for urban decline in some of the region's cities. Major Southern cities with very low scores on the economic performance index already show symptoms of decline. Because it is easier to prevent than to reverse decay in cities, attention should be directed now to maintaining healthy and viable urban centers in the South.

The changing distribution of population, income and employment between the big cities and the rest of the South over the last 20 years reflects the geographical distribution of recent growth. Thus, comparative growth trends provide a window on the future locations of people, money and jobs in the region. In considering the patterns of growth in large and small cities and in rural areas, it is important to remember that economic growth is not a zero sum game, that the South benefits from the economic development occurring in a variety of settings, and that efficient allocation of resources in a market economy has locational impacts.

Preliminary Census counts show a 1970-80 population growth rate for the South in excess of 20 percent, while the U.S. population increased just over 10 percent. Nationally, population growth was significantly higher in nonmetropolitan counties than in metropolitan, but this relationship was reversed in the South. As a result, the percent of the nation's population living in metropolitan areas declined slightly - to 72 percent - while the comparable ratio for the South rose slightly, to almost 62 percent. The South remains the nation's most rural region. Figure 7 illustrates the regional growth rates.

FIGURE 7

POPULATION GROWTH IN METROPOLITAN AND NON-METROPOLITAN AREAS



Source: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population (Preliminary)

Perhaps the fact of its later development will allow the South to experience a less severe dislocation than occurred in earlier-developing regions, first as people poured into the large cities and now as they are flowing out. The Census reports a metropolitan growth rate for the South over 5 percent higher than in nonmetropolitan counties, but population growth in the South actually is more evenly dispersed. The metropolitan growth rate is exaggerated by counties moving from nonmetropolitan to metropolitan status.

Only aggregate data is available yet from the 1980 Census, and so this analysis will shift to Bureau of Economic Analysis data for more detailed information on population, income by industrial source and employment by industry for the South and specifically, for central city counties* in the region.

Geographic Distribution of Growth

Over the 20-year interval beginning in 1969, the South and Southern cities experienced a large increase in population. The region's growth rate accelerated during the seventies. Between 1959 and 1969, annual population growth in the South averaged 1.36 percent; this annual rate rose to 1.51 percent between 1969 and 1978 (see Table 9). The latter rate is based upon an estimate, and will be even higher when the final 1980 count is used.

While the regional population growth rate accelerated, population growth in the big cities slowed down, despite the more rapid growth rates in metropolitan than nonmetropolitan areas. In essence, Southern population growth is following the national trend toward suburbanization, although the region never became as urbanized as the rest of the country.

TABLE 9

SOUTHERN POPULATION GROWTH TRENDS

	South	Central City Counties
1978 population (estimated)	65,227,700	28,674,500
1969-78 annual rate of increase	1.51%	1.38%
1959-69 annual rate of increase	1.36	1.88

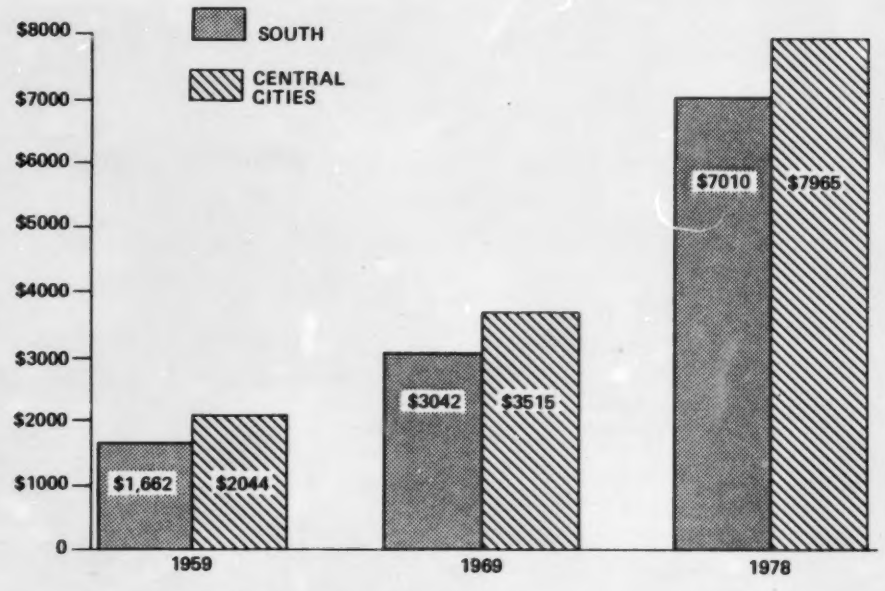
Source: Calculated by Southern Growth Policies Board from Bureau of Economic Analysis data.

* Defined as a county containing at least one city with over 50,000 residents that is designated as a central city by the Census. There are 87 central city counties among the 1400 counties in the South. These counties will be used to represent the South's big cities.

Because big cities dominated the early economic development of the South and poverty was more pervasive in rural areas, urbanites have enjoyed higher incomes than other Southerners (see Figure 8). That is still true, but the difference has gotten proportionately smaller as economic growth has dispersed geographically. The per capita income of city residents was about 14 percent higher than the regional average in 1978, down from 16 percent higher in 1969 and 23 percent higher in 1959.

FIGURE 8

PER CAPITA INCOME, CENTRAL CITIES AND THE REGION



Source: U.S. Department of the Census, Bureau of Economic Analysis

Although total personal income from all sources has grown at about the same rate in big cities and outside them, the city population has grown faster so that income is divided among ever more people. Table 10 shows the even distribution of personal income growth between central cities and the rest of the region.

TABLE 10

SOUTHERN INCOME GROWTH TRENDS

	South	Central City Counties
1978 Total personal income (TPI)	$457,268,741,000	$228,399,744,000
1969-78 TPI annual increase	11.37%	11.03%
1959-69 TPI annual increase	7.68%	7.56%

Source: Calculated by Southern Growth Policies Board from Bureau of Economic Analysis data.

Jobs in cities provide income for residents of surrounding areas, who commute in to work, as well as for city residents. Earnings from jobs located in the major cities - jobs held by city and suburban residents - continue to contribute a proportionately large share of the regional income. Jobs in the central city counties provided 27 percent more income per capita than the regional average in 1978, 26 percent more in 1969, and 29 percent more in 1959. Table 11 shows the recent growth trends in earnings from employment in central cities and in the region as a whole.

TABLE 11

GROWTH IN EARNINGS BY PLACE OF WORK

	South	Central City Counties
1978 Total earnings	$348,538,857,000	$195,138,818,000
1969-78 annual growth rate	10.68%	10.69%
1959-69 annual growth rate	7.45%	7.76%

Source: Calculated by Southern Growth Policies Board from Bureau of Economic Analysis data.

Clearly, cities contribute more to the regional economy than population alone would indicate. Earnings from jobs in the cities have grown slightly faster than the regional average over the last decade, despite the suburbanization of population growth.

The number of jobs in central cities also has increased more rapidly than the regional average. Between 1969 and 1978 wage and salary employment in the South increased by over 6 million jobs to a total of 27.3 million. More than half of those new jobs were in the central cities.

TABLE 12

1969 AND 1978 EMPLOYMENT BY INDUSTRY AND PLACE OF WORK

INDUSTRY	ALL SGPB STATES			IN CENTRAL CITY COUNTIES		
	1969	1978	ANNUAL RATE OF CHANGE 1969-78	1969	1978	ANNUAL RATE OF CHANGE 1969-78
TOTAL WAGE & SALARY EMPLOYMENT	21173239	27279442	2.86	11212032	14543528	2.93
FARM	553586	468000	-1.85	78326	68915	-1.41
NONFARM	20619653	26811442	2.96	11134913	14474613	2.96
PRIVATE SECTOR	15845106	21126182	3.25	8675410	11573304	3.25
AGRICULTURAL SERVICES, FORESTRY & OTHER	90372	164459	6.88	19792	37487	7.35
MINING	329059	508919	4.96	116903	188232	5.44
CONSTRUCTION	1135248	1557876	3.58	673403	854963	2.69
MANUFACTURING	4843178	5648054	1.72	2034172	2338896	1.56
NONDURABLE GOODS	2683681	2983304	1.18	977759	1051438	0.81
DURABLE GOODS	2159497	2664750	2.36	1049337	1211594	1.61
TRANSPORTATION & PUBLIC UTILITIES	1150250	1436459	2.50	741281	890891	2.06
WHOLESALE TRADE	965662	1465947	4.75	700101	991677	3.94
RETAIL TRADE	2875882	4192925	4.28	1641291	2360338	4.12
FINANCE, INSURANCE & REAL ESTATE	814009	1240574	4.79	581661	861408	4.46
	3641446	4910969	3.38	2092472	2951939	3.90
GOVERNMENT	4774547	5685260	1.96	2458296	2901309	1.86
FEDERAL, CIVILIAN	855631	894012	0.49	511077	526674	0.33
FEDERAL, MILITARY	1354271	1008887	3.22	726126	555081	-2.94
STATE & LOCAL	2564645	37832361	4.41	1221093	1819554	4.53

Source: Calculated by the Southern Growth Policies Board from Bureau of Economic Analysis data.

The average annual rate of increase in non-farm employment was just under three percent for both central cities and the region as a whole. The overall employment growth rate was slightly higher in the cities because they experienced a smaller decline in farm employment, which is relatively unimportant in urban areas anyway. Table 12 lists employment by major sectors and the average annual rate of change from 1969 to 1978.

Among the major private-sector sources of employment, the manufacturing and trade industries provided new jobs at a faster rate outside central cities, while the number of service jobs increased more rapidly in the cities. The different growth rates for different industries reflect the gradual structural changes in cities' economic bases that are occurring as part of Southern economic development

The distribution of employment by industry in Southern metropolitan areas in 1978 was both more diversified and more like the national pattern than in 1969. Compared to metropolitan areas in the rest of the country, Southern metropolitan areas had overall greater economic growth and specifically greater growth in business services; health, legal and educational services; and other sectors associated with economically developed urban areas. For Southern cities, this growth was part of a catching-up process.

At least one difference is expected to endure. The construction industry provides a larger proportion of jobs in metropolitan areas in the South than elsewhere. This is because the population growth and economic expansion create demand for new construction.

Southern cities have enjoyed the benefits of economic growth. The rate of job growth in Southern metropolitan areas has been twice the national metropolitan area average. Also, structural changes have tended to increase the proportion of jobs in higher-wage industries. However, some impacts are negative. The changes have made the Southern cities more vulnerable to national economic fluctuations, because their economic bases are more integrated into the national economy. The higher proportion of jobs in construction also increases vulnerability to economic fluctuations - and to high interest rates.

Industrial Structure and Economic Conditions

Despite a general regional trend toward the national pattern of employment by industry, important differences remain in the economic bases of Southern cities. Those differences affect both current income levels and the city's economic outlook. While most Southern cities continue to enjoy strong economic growth, individual city statistics provide both more information and a more mixed outlook. Just as regional growth rates are inflated by extremely fast growth in Florida, the very strong economic performance of several Southern cities has a large impact on the averages.

As a group, Southern cities have per capita incomes 14 percent above the regional average, but three of every ten cities have incomes below the regional average. An analysis of differences in the industrial structure of individual

cities reveals sectors that are consistently associated with income extremes. At the most general level, it links high income with a predominance of private sector activity and low income with a very large public sector. This finding supports the current economic development policy emphasis upon the private sector.

Big cities with low incomes are found all across the South, even in the fastest-growing and richest states. State-by-state data is presented in Table 13. Only three states - Kentucky, Mississippi and West Virginia - which together contain just six of the 87 cities studied, have no city with a per capita income below the regional average.

TABLE 13

CITY PER CAPITA INCOME - 1978

State	Number of Central City Counties With: Incomes Below the Regional Average	Average Incomes	Incomes Above the Regional Average
Alabama	3	0	3
Arkansas	1	0	2
Florida	4	0	6
Georgia	2	2	3*
Kentucky	0	0	3
Louisiana	2	0	5
Mississippi	0	0	1
North Carolina	3	0	5
Oklahoma	1	0	2
South Carolina	1	0	2
Tennessee	1	0	3
Texas	6	0	18
Virginia	1	0	5**
West Virginia	0	0	2
TOTAL	25	2	60

* Greater Atlanta encompasses two of the three Georgia counties with above-average incomes.

** To accommodate the unique local government system in Virginia, independent cities over 50,000 population are aggregated with their surrounding county to form one unit roughly comparable to the central city county in other states.

Source: Calculated by Southern Growth Policies Board from Bureau of Economic Analysis data.

There are characteristics common to the lowest-income cities. Most are among the smaller Southern metropolitan centers and have city populations between 50,000 and 100,000. Few function as manufacturing or service centers, two traditional urban roles. Although each of these cities has a developed trade sector, it is weak relative to other cities of similar size.

There is a preponderance of cities with military bases among the South's poorest cities, in part reflecting the low salaries paid to military personnel. Also, several of these cities have been adversely affected by cutbacks or closures of military installations. The further away from regional income levels is a city's income, the more that city is like other cities with similar incomes. In fact, the very poorest cities are even clustered geographically, in Texas along the Mexican border.

Government has not been a stable source of employment for these low-income cities. Cutbacks in military bases and in the space program have affected several of them adversely. Although growth in manufacturing and trade employment has absorbed some of the slack left by federal military cutbacks, the low-income cities have relatively little employment in manufacturing, trade, or services.

At the other end of the scale, nine of the 87 Southern cities studied had per capita incomes more than 25 percent higher than the regional average, while ten had per capita incomes from 20 to 25 percent higher. Like the poorest cities, the wealthiest cities are clustered in Texas, a state of extremes. There is a wide range of population sizes among the high-income cities, which include several of the South's biggest cities. Well-paying, private-sector jobs are the basis of economic well-being in all but two of these cities.

The wealthiest cities fit into three categories. First, there are the centers of energy production, cities with large concentrations of employment in the mining sector, which includes oil, gas and coal extraction. Secondly, there are cities with a mature economy and concentrations of employment in the better-paying jobs of the tertiary sector; that is, services - especially business and financial services, communications, and trade - especially wholesale trade. These Southern cities are most like the major cities in other regions in demographic as well as economic characteristics. Finally, there are cities with imported wealth, retirement centers that have attracted well-to-do people from elsewhere. In all high-income cities, except those that have imported their wealth, jobs in the city are an important source of income for people living outside the central city county as well as for city residents.

The high-income Southern cities that rely upon imported wealth are very different economically. There is substantial employment in agriculture and agricultural services, an employment pattern more typical of the poorest cities than high-income cities. Employment also is concentrated in the trade and service sectors, in jobs related to meeting the needs of wealthy retirees and tourists. These jobs are mostly low-wage. Average income levels overstate the overall economic strength of these cities.

Economic Outlook for Southern Cities

Recent economic trends indicate that most Southern cities are economically healthy, and as a group, enjoy a better economic outlook than non-Southern cities. The geographic distribution of regional growth trends shows continuing strength in Southern metropolitan areas, and most central cities are sharing in their metropolitan area's economic growth. The changing role of big cities in the regional economy is illustrated by changes in the importance of various industrial sectors to the city and to the region. Cities are adding new jobs in the business services industries, a key sector associated with economic development.

In Southern cities with very low incomes, federal installations - especially military - and the agricultural sector dominate the local economies. Energy production and the tertiary sector - especially business services - are predominant in the economic bases of cities with high incomes. Stated differently, employment sources that dominated the South's past are associated with low incomes while those that describe its future are associated with high incomes. That interpretation leads to an optimistic forecast for the economic future of the region.

However, a warning flag for cities is symbolized by recent population trends. Cities have seen a slowdown in population growth as the South follows the national trend toward suburbanization. Already many of the high-income Southern cities have entered a difficult period of transition signalled by population outmigration as population growth in the suburbs accompanies economic growth in the cities. Six of the South's largest cities had fewer residents in 1980 than in 1970. In some cities, most notably manufacturing centers in the Northern industrial tier states, population outmigration has been the precursor of economic decline. While most Southern cities are healthy, conditions vary from city to city, and individual city data suggests a more mixed outlook for Southern cities.

Economic conditions and trends in urban areas are shaped by local conditions, but they are influenced also by events taking place far beyond local boundaries and by national and regional forces. International events will become increasingly important as world trade grows and there is more foreign investment in Southern cities.

Several of the outside factors affecting cities have been mentioned already. The decentralization of jobs and households has brought about dispersed growth patterns in the South and the Nation. Cities are affected by their evolving role from a goods-producing to a service-providing economy.

Changes in the economic bases of urban areas affect the labor force. There may be problems arising from a mismatch between the skills of urban job-seekers, especially the poor and recent immigrants, and the skills demanded by employers in the growing business and related service industries. The manufacturing and public sectors that have provided jobs to low-skilled workers in the past are not expected to continue growing in urban areas. Also the growing tertiary industries are expected to be characterized by small specialized firms.

Social changes also will affect economic trends in urban areas. As households continue to shrink in size, fewer people will occupy the existing housing stock. This dictates a population loss for cities that do not increase their housing supply. The growing labor force participation by women and increases in the proportion of households headed by a woman will affect the type of services needed by city residents. Related to this and other changes is a growing emphasis on the neighborhood and neighborhood organizations.

The impact of these trends will vary from city to city as will any problems in adjusting to the changes they imply. However, these and other forces of change must be included in any consideration of the economic outlook for Southern cities. That outlook is important to the outlook for the region as a whole.

Southern cities provide jobs and income for many more people than those who actually reside within the city limits, and the cities' economic futures will affect the region's ability to close the income gap with the nation. Comprehensive state economic development efforts recognize the contribution made by cities and work to preserve their vitality. State-local cooperation is especially important during this period of transition in the role played by cities and in the intergovernmental system itself.

Government and the Economy

The changing economic situation facing Southern cities, employment growth accompanied by structural change, along with the impact of national and international trends and events can lead to economic problems if the marketplace does not adjust smoothly to the changes. Higher prices for raw materials, mechanized manufacturing processes requiring fewer workers, and rapid technological transformation affecting every aspect of business are among the forces that require adjustments from the economy.

Changes affect demand for the factors of production - labor, land, capital, energy or material - either directly or by affecting demand for local products. Where there is a bottleneck in the local market for one or more of these factors of production, the local economy suffers. Then there is pressure for government intervention in the economy, and government usually responds with programs designed to ameliorate the situation.

Because economic programs require greater resources than are available at the local level, cities have looked to the state and federal governments for assistance. The federal government responded to urban problems in the seventies with a National Urban Policy. However, the policy was national in name only. It focused on the problems typical of older manufacturing centers and was targeted to cities in the Northeast and Midwest. Few Southern cities could meet the criteria for participation. For this and other reasons, Southern cities look to their states for an urban economic policy.

Formulating the state response to cities' requests for help with economic problems involves difficult choices, choices among targeting strategies and avenues of intervention. In other words, government must decide who to help and how to help, but first it must decide whether to help or not.

The Public Response. There are three possible government responses to an economic problem: (1) do nothing; (2) provide compensation to affected individuals; or (3) intervene in the marketplace. The appropriate choice depends upon the diagnosis of the problem. On occasion there will be disagreement about the diagnosis of the problem and the appropriate response. That is a political issue which must be considered case-by-case within the political process. That issue is outside the scope of this report, which is to present a model* for a state urban economic policy.

The best public-sector response to an urban economic problem may be to do nothing. If the problem is not serious, not susceptible to public intervention, or borne evenly within the community, if the proposed government response would cost more than the initial economic problem, no response would be better. It is important to acknowledge the limited power of government interventions in the economy and the limited nature of public resources.

In certain situations, the appropriate public response is to provide compensation or special services to the affected people. This approach addresses economic problems which disproportionately burden a narrow section of the community. It can be used when the economic problems are transitional, do not result from a failing of the marketplace, or would cost more to correct than the problem itself costs the community.

Public intervention in the marketplace is justified only when three criteria are met: (1) the economic problems are serious; (2) the problems are caused by a failure in the marketplace; and (3) the cost of the public intervention is less than the cost of the problem. When those conditions exist, state intervention in the economy can help cities deal with the economic problems they are facing. It is then up to the state, working with economically-stressed cities, to design an urban economic policy that provides a framework for public intervention in the economy.

Intervention Strategies. Designing an urban economic policy is a difficult task. There is a natural tendency to try to reverse whatever current trends are causing the problem and to recreate the past - usually by assisting declining industries. However, public intervention in the economy is most effective when it facilitates adjustment to the changes that are occurring. An effective response, while it reacts to current conditions, is shaped by the future not the past.

An effective economic strategy grows out of an understanding of the underlying changes occurring in local urban economies and of the factors shaping these patterns Based upon this understanding, a state urban development policy can be designed to: (1) facilitate - not delay - the process of adjustment to underlying structural change; (2) include programs that focus upon real development issues; and (3) make most efficient use of limited public resources. Thus, the strategy is proactive as well as reactive.

An urban economic policy must be flexible because each locality is unique. One universal economic plan is inappropriate, but there are several shared causes of urban economic problems. Also, there are general issues, questions that must be answered for each city before the local development strategy is designed:

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* Developed in Vaughan.

(1) What economic shifts are occurring that require a policy response?

(2) What are the local barriers to economic development?

(3) What firms should be the target of development initiatives?

(4) What public programs are most effective in lowering these barriers?

A specific intervention strategy, tailored to local conditions, emerges from consideration of these questions.

Just as the issues vary from one locality to another, so do the objectives of the government response to those issues. The four primary goals for an urban economic policy are to increase overall growth, to help distressed areas, to help disadvantaged people or to improve job quality. These goals can conflict with each other and represent competing claims on the public attention or, in another situation, be complementary. For example, if conditions are placed upon jobs that are created - they must be in distressed areas or go to disadvantaged people - then more public expenditure may be required to create each new job than if the goal were simply to create new jobs. Conversely, aiding disadvantaged people may help a distressed area where the targeted population lives. Table 14 presents examples of specific public actions that might be employed toward each of the goals.

TABLE 14

DEVELOPMENT OBJECTIVES AND DEVELOPMENT POLICIES

Objective	Policy
Increasing Overall Growth	• Increasing the availability of capital for new firms. • Lowering overall business taxes. • Providing technical assistance to entrepreneurs. • Reducing regulatory "red-tape."
Helping Distressed Areas	• Targeted tax incentives. • Upgrading public infrastructure. • Fiscal assistance to distressed areas. • Targeted capital subsidies.
Helping the Disadvantaged	• Improved education, work experience and training programs. • Incentives to firms for hiring the disadvantaged. • Improving transportation access.
Improving Job Quality	• Safety and health regulations. • Reducing cyclical instability. • Subsidies to on-the-job training programs.

Source: Vaughan.

Summary. State and local economic programs have evolved through several stages, and current policies embody portions from each. Early state economic policies in the South concentrated on attracting industries from wealthier regions, encouraging them to locate new branches or to relocate existing facilities in the South. The underlying ethos was competitive, which fostered economic programs designed to match or better incentives offered by other jurisdictions. The goal was to increase employment, and the program itself was largely reactive - to incentives offered by competing jurisdictions and to the availability of federal funds for economic development.

A growing awareness of the costs of relocation and new development has shaped recent federal economic assistance programs and shifted the emphasis to keeping local industries healthy. Southern cities, like cities elsewhere, have taken actions to retain the industries they have and to assist them if assistance is needed. This approach also is essentially reactive; it seeks to protect the status quo against change, and it reflects the availability of federal aid.

Economic development has brought the South enough people, income, and industry to generate growth locally. Now a third generation of urban economic policies is emerging whereby the focus is on creating an economic climate condusive to new businesses started locally by local entrepreneurs. Federal economic development initiatives are beginning to move in this direction also.

The "grow your own" approach has the advantage of being other than a zero-sum game. One area's gain is not the result of another area's loss, and the net affect is a national increase in the number of jobs. The only disadvantage is its difficulty. There is no blueprint for helping entrepreneurs, although there is broad agreement on the pitfalls they face - high interest rates, inexperience and lack of managerial expertise, under-capitalization. It has been suggested that the type of person most apt to start a new business is not interested in being the recipient of government assistance.

Current state economic policies incorporate programs representative of all three generations - competitive inducements for existing industries from other areas, protection for existing local industries, and help for small, new businesses. It appears that new public initiatives will be targeted to the latter.

The states have the ability to affect a broad range of conditions in local areas. Table 15 reproduces a list of possible state interventions in the local economy. Numerous actions on the list are taken by the states without reference to their impact upon the economies of urban areas within the state. As a result, state actions may have an unintentional negative impact upon a city economy. An increased awareness at the state level of cities and their problems would help prevent unintentional harm and force an acknowledgement of any trade-offs involved in state regulatory actions.

TABLE 15

POSSIBLE AVENUES OF STATE INTERVENTION IN URBAN ECONOMIES:
A CHECKLIST FOR LOCAL OFFICIALS

Fiscal Reports

State Tax Structure Revisions
- General sales tax
- Graduated personal income tax
- Reduction of interstate and interlocal tax level disparities

State Revenue Sharing/Tax Sharing Program
- Aid formula based on local fiscal need

Education Finance Reform
- State assumption of primary and secondary school costs
- Aid formula based on local fiscal or socio-economic need

State Assumption of Local Social Service Costs
- Public welfare expenditures
- Health care expenditures

Reimbursement of local governments for local expenditures required by the state.

Enabling statute permitting metropolitan revenue and tax base sharing programs.

Regulatory Reforms

Banking
- Elimination of usury ceilings on commercial lending
- Limitation of commercial bank reserve requirements
- Revision of chartering and branching regulations for commercial banks

Insurance
- Enactment or extention of FAIR Plan legislation
- Regulation of insurance rates and territories to ensure equitable coverage
- Investigation of discriminatory practices in insurance industry

Environment, Air Quality, and Land Use
- Enactment of regulations which maintain appropriate balance between environmental and economic development concerns

Permit Procedures and Requirements
- One-stop permitting program
- Office of business advocacy
- Forms management/paperwork reduction program

Determination of Local Powers

Local Taxing Authority
- Sales tax
- Income tax
- Tax incentive financing

TABLE 15

POSSIBLE AVENUES OF STATE INTERVENTION IN URBAN ECONOMIES:
A CHECKLIST FOR LOCAL OFFICIALS
(continued)

Local Borrowing Authority
- Improve local access to the bond market through:
  - Controls on local bond maturities, interest rates, methods of sale
  - State loan guarantee fund for municipal debt

Local Development Powers
- Localities authorized to create economic development corporations
- Localities authorized to create special purpose districts

Local Functional Discretion
- Localities able to exercise all powers not specifically denied them by the state

State Expenditure Policies

State Procurement Policy
- Procurement set-asides for small businesses
- Procurement set-asides for firms located in economically lagging jurisdictions

State Facilities Siting Policy
- Location of state facilities in economically lagging jurisdictions

State Credit Policy
- Linked deposit plan

Investment of State Pension Funds
- Investment strategy facilitating urban economic development

Development Grants
- Infrastructure development policy placing improvements to facilitate urban economic development

State Aids to the Private Sector

- Venture/equity capital investment program
- Business loans/loan guarantees/interest rate reduction efforts
- Industrial revenue bonds (state and local issuances)
- Tax abatement programs (state and local efforts)
- Business site development program
- Customized job training aids to the private sector may be targeted on the basis of:
  - Location of firm
  - Size of firm
  - Sector of the economy to which the firm belongs

Source: Urban Consortium, 1980.

IN SUMMARY: THE LIVEABLE CITY

Both economic and fiscal studies emphasize the importance of growth and prosperity to a healthy city. Yet in recent history, too few U.S. cities have enjoyed both for very long. In cities where growth has brought economic development and high incomes, population outmigration and even decline frequently have followed. Growth and prosperity in the metropolitan area was refocused outside the central city. Today, some of the Southern cities that have been at the forefront of the region's economic progress and are economically most like the cities in high-income regions have either stopped growing or add residents only by annexing fringe areas.

Across the country, large cities are having to adjust to the change from growth to stability or decline, an adjustment made more difficult if the change is precipitous. An understanding of the forces behind these changes is important for designing strategies to help local governments avoid precipitous change and cope with the changes that do occur. In that effort, the focus is on the concept of liveable cities.

Growth may bring both environmental costs, which diminish the residential appeal of the city, and rising incomes, which enable people to move out to the suburbs or beyond. Thus, a city cannot continue to prosper unless it provides attractive residential choices to its residents. Although the South and its cities score poorly on quality of life indicators that focus on income levels and government services, large-scale immigration from other regions contradicts those findings. Clearly, other factors are important to the people moving South. To remain healthy, Southern cities must retain the appeal that attracted new residents.

Fiscal and economic conditions are important to the low taxes and employment opportunities that attract immigrants. However, low taxes and employment opportunities benefit residents of the metropolitan area - not just city residents. As it develops economically, a city is challenged to maintain a hospitable environment for residents so that people living in the city choose to remain in the city rather than move to adjacent, less urban areas.

Analyses of migration show that economic reasons are diminishing in importance and are not significant to people moving short distances. Those people are seeking a more attractive residential environment. The factors affecting their decision to move include several that are amenable to city actions.

Over half of the families who move from the central city to a suburb do so to improve their housing and/or neighborhood. Urban characteristics such as population density and air pollution drive some residents away, but crime is probably the most important issue. A Gallup poll released after the Task Force research was completed addresses this issue. The results are summarized on the next page.

TABLE 16

REASONS FOR WANTING TO MOVE AWAY

All Urban Residents	High Crime Rate	Overcrowding
1980	24%	16%
1977	18	25
Central Cities		
1980	30	13
1977	20	25
Suburbs		
1980	14	21
1977	14	23

Central city residents of urban areas with a population of one million or more are considerably more likely than others to mention the high crime rate and pollution as reasons for wanting to move away. Suburban residents of the smaller metropolitan areas, on the other hand, are less likely than others to mention pollution or the housing situation.

The table below shows responses to the question on moving away among key population groups in all cities containing more than 50,000 inhabitants.

TABLE 17

DESIRE TO MOVE AWAY

	Yes	No	Not sure
All urban residents	36%	55%	9%
East	37	53	10
Midwest	37	51	12
South	32	60	8
West	37	59	4
18-34 years	46	44	10
35-39 years	35	58	7
50 and older	26	65	9
College	36	56	8
High School	37	54	9
Grade school	30	58	12
White	37	56	7
Non-white	30	51	19

Source: "Urban Dwellers Want to Flee Cities In Droves", George Gallup, The Chapel Hill Newspaper (Chapel Hill, North Carolina), Sunday, 4/19/81, p.8a.

The fact that almost one in three central city residents wants to move away indicates the seriousness of discontent with urban living conditions. The pervasiveness of that discontent is further illustrated by the responses from suburban residents. Although Southern city dwellers are less apt to want to move out of the city than city dwellers in other regions, the difference is small when compared to the overall rate of dissatisfaction with the urban environment.

Even the smaller cities are affected by a dispersed growth pattern like that occurring in metropolitan areas. As land in the urban centers is used and the price of any remaining open land increases, development naturally moves toward the fringe. This occurs independently of city size.

Annexation is an important local option that has been used by Southern cities to capture the benefits of growth on the fringe and to ensure that newly-developed areas have the infrastructure and services needed in urban areas. Thus, annexation contributes to the liveability of cities that are able to annex. There are numerous other local efforts that can be undertaken to enhance the liveability of a city, and local governments in the South have been very active in this area. Several examples are listed in Table 18.

Southerners recognize and cherish the special characteristics that make Southern cities attractive. Local governments - with state, federal, and private support - are working to preserve the quality of the Southern urban environment by using housing programs, historic preservation, parks and recreational programs, special area revitalization, and other efforts designed to enhance the city. Because of their recent development, Southern cities enjoy the advantages of lower population densities, less pollution and, frequently, the ability to annex. The overall liveability of Southern cities contributes to their economic and fiscal strength.

In order to maintain the healthy cities and improve the position of the distressed cities, policymakers must continue their efforts to preserve and, where needed, improve the urban environment. The most recent statistics describing population migration and crime show that Southern cities are losing their advantages in both areas. Statistics describing housing quality and city services show that despite recent growth and prosperity the Southern cities have not completely caught up in those areas where they are disadvantaged.

The dispersed pattern of recent growth is a fact of life in the South as elsewhere. Declining population and thinning density in the urban core create situations that require adjustment. In some cases they also provide opportunities for revitalization since outmigration cures any problems related to high density.

There will always be potential for conflict between economic development and environmental protection goals, but a recognition of the inter-relationship between economic growth and environmental quality points to shared concerns. A strong South with healthy cities requires both.

TABLE 18

EXAMPLES OF IMPROVEMENT PROJECTS IN SOUTHERN CITIES

City Name	Project	Funding Source/Lead Agency
Asheville, North Carolina	A downtown revitalization project has made this western North Carolina town a gathering spot for tourists and area residents. The village quality that now characterizes Asheville is largely a result of a downtown plan that focused on creating pedestrian spaces. Among the most recent improvements, a former alley has been transformed into Lexington Park.	Asheville Revitalization Commission
Atlanta, Georgia	In-town residential development is currently focused in a ten-block area just north of downtown Atlanta. Called Midtown, the area is characterized by renovated single-family houses and new high-density residential development. Current efforts are being focused on Piedmont Street - a thoroughfare that runs through the western part of the district.	Midtown Neighborhood Association (a local citizen's group)
Austin, Texas	A public-private effort, Austin's creekside open space program has developed over a number of years. Town lake, hike and bike trails, and creekside parks are all part of Austin's effort to provide recreational land accessible to area neighborhoods and protect critical natural zones.	Mix of public and private funds. Most recently, a $30,000 City Edges Grant from the National Endowment for the Arts was given to the University of Texas School of Architecture to work further on this project.
Beaufort, South Carolina	Beaufort, a city of approximately 10,000, boasts a $5.5 million renovated waterfront park. As part of the renovation effort, a new bulkhead was build along with a marina, an all-purpose pavillion, a sunken amphitheater, a grassy commons, and a creative play area. Linking all this is a river walk extending the length of the park. Beaufort has hired a full time director to coordinate programs in the park.	Combination of federal funds (Bureau of Outdoor Recreation, Economic Development Administration, Revenue Sharing) and local matching money

TABLE 18

EXAMPLES OF IMPROVEMENT PROJECTS IN SOUTHERN CITIES (continued)

City Name	Project	Funding Source/Lead Agency
Cave Spring, Georgia	A small town in northwest Georgia, Cave Spring received a $10,000 grant from the National Endowment of the Arts for downtown improvements. Three sets of plans have already been developed: a downtown streetscape upgrading, historic preservation, and landscape development plan. This builds on earlier renovation efforts begun by the Cave Spring Historical Society.	Liveable Cities Grant and matching local funds
Charleston, South Carolina	Attracting both local residents and visitors, Charleston's Spoleto Festival has become a major citywide cultural event. Art exhibits, lectures, film festivals and a host of free events fill the city's theaters and auditoriums each spring.	City of Charleston and private contributions
Charlotte, North Carolina	Charlotte's Fourth Ward - one of the original downtown quadrants - is being revived primarily for in-town residential use. Low interest loans from a consortium of area banks have enabled developers to build new town-houses while the City of Charlotte has built new brick sidewalks, lighting, and a new linear park.	North Carolina National Bank Community Development Corporation
Gulfport, Mississippi	Federal funds are being used in Gulfport to develop a two-block project downtown. Construction is already underway on a 15-story bank building. New 3-story buildings will be built under and around it together with an adjoining plaza and public parking deck. Small shops and activities will make this an attractive public center.	Federal funds: CDBG
Hendersonville, North Carolina	Hendersonville, a town just south of Asheville, undertook a downtown redevelopment project in 1979. Physical improvements to the main street were financed by a loan assumed by local merchants. Contributing to this was a wide volunteer effort. A local architect donated construction drawings and plans, brickmasons volunteered to construct planters and local citizens contributed money to buy plants for the planters.	Local merchants and community volunteers

TABLE 18

EXAMPLES OF IMPROVEMENT PROJECTS IN SOUTHERN CITIES (continued)

City Name	Project	Funding Source/Lead Agency
Jonesboro, Tennessee	The oldest town in Tennessee, Jonesboro, has undertaken a downtown revitalization project that has resulted in rebricked sidewalks, landscaped parking areas, street trees and walking tour markers.	Mix of federal funds (Federal Historic Preservation grants) and local matching funds
Macon, Georgia	Macon is developing a new downtown office center (Macon Center) and an in-town residential district (primarily condominiums). Financial help is also available to help building owners convert the upper floors of downtown buildings to residential use.	Federal funds: Urban Development Action Grant (UDAG) and Community Development Block grant (CDBG)
Memphis, Tennessee	Recent renovation activity has centered in the Cotton Row Historic District, an area extending two blocks on the river bluff where the cotton grading and selling business was originally based. Currently, a major streetscape project is underway with the city spending $600,000 on brick sidewalks, trees and other improvements.	Memphis Center City Commission
Middleburg, Virginia	Since 1973, Middleburg has enforced a strict sign ordinance. Originally directed toward traditional outdoor advertising, this has both helped preserve the town's village image and revived an English tradition - the use of painted signs. This has resulted in a most unique city streetscape.	Local merchants and artists
Murfreesboro, North Carolina	Since 1969, thirty-five buildings in downtown Murfreesboro have been restored either privately or publicly. Some have been converted to public use; for example, a large home in the center of town now houses a library and meeting rooms. Most recently, Murfreesboro received a grant to restore the Dr. Walter Reed House as a human services center for the elderly.	Murfreesboro Historical Association. Recently the city received a $175,000 grant from the Coastal Plains Regional Commission.

TABLE 18

EXAMPLES OF IMPROVEMENT PROJECTS IN SOUTHERN CITIES (continued)

City Name	Project	Funding Source/Lead Agency
Myrtle Beach, South Carolina	Under a local Community Appearance Program begun several years ago, this coastal resort town has initiated beach and oceanfront improvement projects, completed a tree planting program and adopted a landscape and land use buffer ordinance (requires developers plant trees and screen parking lots for new developments). Most recently, a sign ordinance was approved.	Mix of public and private funds
New Orleans, Louisiana	A new tool for urban renovation - the public-private partnership - is currently being used in New Orleans to revitalize the downtown area. Led by the Downtown Development District, efforts have been made to bring in special events, upgrade Canal Street, and provide new street lighting.	A special real estate tax is levied within a 200-square block boundary.
Norfolk, Virginia	Norfolk has been one of the more successful Southern cities in developing in-town housing. To date, over 165 townhouses have been built in Ghent Square, an in-town neighborhood less than one mile from the center of town. Current attention is being focused on Freemason Harbour - a mixed residential-commercial development downtown.	Norfolk Redevelopment and Housing Authority with CDBG funds
Savannah, Georgia	A riverfront plaza that extends for a half mile along the Savannah River is Savannah's most recent preservation and revitalization effort. The revitalized waterfront is for shopping (Factor's Row) and walking (a series of landscaped squares and cobblestone streets encourage pedestrian use). This is the result of an urban renewal project begun in 1973.	Federal and local funds totalling $7 million

TABLE 18

EXAMPLES OF IMPROVEMENT PROJECTS IN SOUTHERN CITIES (continued)

City Name	Project	Funding Source/Lead Agency
Selma, Alabama	A community wide effort is underway in Selma to restore the downtown district. Much of the city's core narrowly missed being eliminated under an earlier urban renewal program. Some of the current improvements include new sidewalks and street trees. A new city hall and library have helped to promote interest in downtown redevelopment.	Federal funds: CDBG
Shreveport, Louisiana	The formerly neglected waterfront in Shreveport has become an open-space attraction. The Red River Parkway, begun in 1968, includes over 300 acres of linear open space stretching along the river. The more urban part of the parkway now includes a civic theater and art center. Along the parkway is an outdoor theater, Veterans Park and a hike and bike trail.	In 1978, Shreveport voters approved a bond issue for a 2-1/2 mile expansion of the Red River Parkway.
Wilmington, North Carolina	Like several other seaport towns, Wilmington has revived its waterfront area. Chandler's Wharf (a nautical museum) and the Cotton Exchange (a group of historic buildings that now a specialty shopping area) are two products of this effort. Revitalization of the waterfront area has proved to be an impetus to other restoration projects in Wilmington.	Private developers

Source: Southern Living Magazine.

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